



Climate Policy-Based Financing

Program Document

P001111 Indonesia: Climate Adaptation and Green Resilience Program (Subprogram 1)

(Board Approval)

Currency Equivalents

As at July 1, 2026

Currency Unit – Indonesia Rupiah (IDR)

USD1.00 = IDR 17,940

Fiscal Year

January 1– December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
ADB	Asian Development Bank
AFD	Agence Française de Développement
AKSARA	Application for Planning and Monitoring Low-Carbon Development Actions
APBN/DIPA	State Budget / Budget Implementation List
APBD	Regional Government Budget
BI	Bank Indonesia / Central Bank
BLT	Direct Cash Transfer
BMKG	Agency for Meteorology, Climatology, and Geophysics
BPD LH	Environmental Fund Management Agency
BPK	Badan Pemeriksa Keuangan / Supreme Audit Institution
BPLH	Environmental Control Agency
BPPSDMP	Agency for Agricultural Extension and Human Resources Development
BPS	Central Statistics Agency / Badan Pusat Statistik
CCDR	Country Climate and Development Report
CIAT	International Center for Tropical Agriculture
CPBF	Climate Policy-Based Financing
CSA	Climate-Smart Agriculture
Desa	Village
DJPK	Directorate General of Fiscal Balance
ES	Environmental and Social
ESEL	Environmental and Social Exclusion List
ESF	Environmental and Social Framework
ESP	Environmental and Social Policy
FAO	Food and Agriculture Organization of the United Nations
FOLU	Forest and Other Land Use
FORCLIME	Forests and Climate Change Programme
FX	Foreign Exchange (Forex)
GDP	Gross Domestic Product
GGGI	Global Green Growth Institute
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit

GoKUPS	Social Forestry Business Group information/registry system
GHG	Greenhouse Gas
IFAD	International Fund for Agricultural Development
IKPS	Solid Waste Management Performance Index
IMF	International Monetary Fund
IRID	Village Climate Risk Index (<i>Indeks Risiko Iklim Desa</i> , IRID)
JICA	Japan International Cooperation Agency
KDMP	Koperasi Desa/Kelurahan Merah Putih
KfW	Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction)
KUPS	Community-Based Social Forestry Enterprises
KYC	Know Your Customer / Counterparty
LCDI	Low Carbon Development Indonesia
LKPP	National Public Procurement Agency
LTS-LCCR	Long-Term Strategy for Low Carbon and Climate Resilience 2050
MAPS	Methodology for Assessing Procurement Systems
MDB	Multilateral Development Bank
MoA	Ministry of Agriculture
MoE	Ministry of Environment
MoF	Ministry of Finance
MoFor	Ministry of Forestry
MoHA	Ministry of Home Affairs
MoV	Ministry of Villages and Development of Disadvantaged Regions
MPW	Ministry of Public Works
MRV	Monitoring, Reporting, and Verification
NAP	National Adaptation Plan 2026-2030
NbS	Nature-based Solutions
NDC	Nationally Determined Contribution
O&M	Operation and Maintenance
OECD	Organisation for Economic Co-operation and Development
PA	Policy Action
PBL	Policy-Based Lending
PDAM/PDAMs	Local Drinking Water Utility/s
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PKS	Cooperation Agreement
PJLH	Pembayaran Jasa Lingkungan Hidup (Payment for Ecosystem Services)
PMK	Ministry of Finance Regulation
PMO	Program Management Office
PPM	Project-affected People's Mechanism
PT SMI	PT Sarana Multi Infrastruktur
RISPAM	Drinking Water Supply System Master Plan
RKP	Government Work Plan

RPJMN	National Medium-Term Development Plan 2025-2029
RPJPN	National Long-Term Development Plan
RPPEM	Mangrove Ecosystem Protection and Management Plan
RPPLH	Environmental Protection and Management Plan
SDG	Sustainable Development Goal
SIMURP	Strategic Irrigation Modernization and Urgent Rehabilitation Project
SIPSN	National Waste Management Information System
SNDC	Second Nationally Determined Contribution
SNI	Indonesian National Standard
SP1/2	Subprogram 1/2
SPAM	Drinking Water Supply System
SUD	Sustainable Urban Development
SWM	Solid Waste Management
TA	Technical Assistance
TOR	Terms of Reference
TWG	Technical Working Group
UNDP	United Nations Development Programme
UNDRR	United Nations Office for Disaster Risk Reduction
WB	World Bank
WML	Waste Management Ladder

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Executive Summary

The proposed RMB 3,376,000,000 (equivalent to USD500 million) Climate Adaptation and Green Resilience Program (Subprogram 1) is a direct sovereign Climate Policy-Based Financing (CPBF) loan to the Republic of Indonesia. Bappenas is the Executing Agency, working with the Ministry of Finance and relevant sector ministries. The Program is a standalone AIIB operation and is the first of an indicative two-subprogram programmatic series of up to USD1 billion. KfW and AFD have expressed interest in providing complementary financing to the Program, subject to their respective internal approvals. The Program will have a final maturity of 13 years, including a grace period of 3 years. It will be made on standard terms for sovereign-backed variable spread loans, with a corresponding average maturity of 7.87 years. The Program supports policy and institutional reforms across three areas: Climate-Adaptive Rural Economy, Ecosystem-Based Climate Resilience, and resilient local service delivery. Its programmatic design allows Subprogram 1 to establish foundational frameworks, while Subprogram 2 is expected to deepen implementation and institutionalization. AIIB's additionality goes beyond financing by helping the Government structure and sequence the reforms, strengthen the results framework, and link policy reforms to potential downstream climate-resilient investments.

The Program has a significant climate component, with USD462.5 million, or 92.5 percent of AIIB financing, qualifying as climate finance, including 68.75 percent adaptation and 23.75 percent mitigation finance. It is also assessed as Paris-aligned. Key risks are cross-ministerial coordination, political economy, and uneven implementation capacity, particularly at the subnational level. Mitigation measures include a Bappenas-led inter-ministerial Technical Working Group, dedicated focal points, targeted technical assistance, continued stakeholder engagement, and regular AIIB policy dialogue and monitoring.

Program Summary

Program No. and Name	P001111 Climate Adaptation and Green Resilience Program (Subprogram 1)		
AIIB Member	Indonesia		
Borrower	Republic of Indonesia		
Program Executing Agency	Ministry of National Development Planning (Bappenas)		
Program Implementing Agencies	Ministry of Agriculture (MoA), Ministry of Forestry (MoFor), Ministry of Villages and Development of Disadvantaged Regions (MoV), Ministry of Environment (MoE), Ministry of Finance (MoF), Ministry of Public Works (MPW), and Directorate of Housing and Settlements under Bappenas.		
Proposed AIIB financing (USD m)	USD500.00	Instrument type/subtype	Loan/Direct Sovereign
		Currency of financing requested	RMB (CNY)
Sector (Subsector)	Multi-sector (multi-subsector)	E&S Category and Comments (if any)	Not applicable
Program Objective	To support the Government of Indonesia's policy and institutional reforms to strengthen climate resilience in the rural economy, ecosystems, and local service delivery.		
Program Description	The Program supports Indonesia in strengthening climate adaptation and resilience through a coordinated package of policy and institutional reforms across three reform areas: (i) Climate-Adaptive Rural Economy; (ii) Ecosystem-Based Climate Resilience; and (iii) Resilient Local Service Delivery. <u>Reform Area 1: Climate-Adaptive Rural Economy.</u> The Program strengthens the adaptive capacity of the rural economy by improving agricultural extension services, irrigation governance, climate-responsive fiscal transfers through the Village Fund, and institutional support for social forestry communities and Community-Based Social Forestry Enterprises (KUPS). These reforms aim to help farmers access climate-smart advisory services, improve the operation and maintenance of tertiary irrigation systems, enable villages to incorporate climate-risk information in planning and budgeting, and improve the readiness of KUPS to access financing for sustainable forest-based livelihoods. <u>Reform Area 2: Ecosystem-Based Climate Resilience.</u> The Program strengthens the policy and institutional framework for Ecosystem-Based Climate Resilience by enhancing mangrove protection, embedding ecosystem-based planning through Environmental Protection and Management Plans (RPPLH), and operationalizing payment mechanisms		

	for ecosystem services. These reforms are expected to improve the integration of ecosystem services into planning and investment decisions, and strengthen the enabling conditions for future public, private, blended, and results-based financing for ecosystem-based resilience. <u>Reform Area 3: Resilient Local Service Delivery.</u> The Program supports reforms to improve the delivery and financing of climate-resilient public services. This includes establishing a framework for subnational infrastructure financing, strengthening solid waste investment preparation through improved coordination and data systems, and advancing integrated water supply and sanitation planning. These reforms aim to strengthen the identification and preparation of a pipeline of bankable, climate-resilient investments in key service-delivery sectors that are critical for sustaining urban and regional growth. The Program is structured as a programmatic series of two subprograms. Subprogram 1 supports the development of core policy, regulatory, and coordination frameworks across the reform areas. Building on the progress achieved and lessons learned under Subprogram 1, Subprogram 2 is expected to advance implementation, deepen institutionalization, and strengthen result outcomes. This programmatic approach will enable sustained policy dialogue, appropriate sequencing of reforms, adaptive learning, and effective risk management in a multi-sector reform program, thereby enhancing the sustainability and durability of reforms.		
Implementation Period	Start Date: Jan. 01, 2025 End Date: March 31, 2026	Expected Loan Closing Date	March 31, 2028
Co-financing type	Standalone	Following other Financier's E&S Policy?	No
Lead financier		Following other Financier's Procurement Policy?	No
Financing Plan	The proposed financing for Subprogram 1 is USD500 million equivalent. Subprogram 1 is the first operation in an indicative two-subprogram programmatic series. A second subprogram of up to USD500 million equivalent is envisaged, subject to further preparation and separate approval under AIIB's applicable policies and procedures.		
Policy Assurance	The proposed operation has passed a policy compliance review. No derogation or exception to the Bank's operational policies is required.		

Risk	
Key Risks	Mitigation Measures
Cross-ministerial coordination risks	Bappenas will lead implementation through the inter-ministerial Technical Working Group (TWG), supported by reform-area sub-working groups, designated policy and data focal points, regular progress monitoring, and

	targeted technical assistance where needed.
Political economy and stakeholder ownership.	The Program supports reforms that are embedded in Indonesia's national development and climate policy framework and have been developed through extensive inter-ministerial consultation. Continued policy dialogue, stakeholder engagement, and implementation support under the Bappenas-led coordination mechanism will help sustain ownership and address emerging implementation issues.
ECap	USD50.29 million (10.06%)

Strategic Alignment	
Alignment with AIIB's thematic priorities	Green Infrastructure
Alignment with AIIB's strategies	Sustainable Cities Strategy; Water Strategy

Climate Action		
Climate Finance	Adaptation Finance (USDm)	USD343.75
	Mitigation Finance (USDm)	USD118.75
	Dual Benefit (USDm)	USD187.50
	Total (USDm)	USD462.50

Other Key Financing Requirements	
Conditions of Effectiveness	The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
Key Conditions for 1st Disbursement	
Key Covenants	No later than two months after the Effective Date, the Borrower shall, through the Program Executing Agency, establish and thereafter maintain throughout the implementation of the Program the Technical Working Group with sub-working groups for each reform area and focal points for each Prior Action for implementing the Program and preparing Subprogram 2, under the terms of reference agreed with the Bank.

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Chief Investment Officer	Kim-See Lim
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Manager	Toshiaki Keicho
Project Team Leader	Jana Halida Uno
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1. Program Context

1.1. Background and Development Constraints. Indonesia is a dynamic emerging market economy and the world's fourth most populous economy, with a population of approximately 280 million that is projected to reach 329 million by 2045.¹ It is also the largest economy in Southeast Asia. Economic growth has been strong, at around 5% in recent years,² with an ambition to increase growth to 8% by 2029 to support the Government's Vision 2045 goal of becoming a high-income economy.³ Despite sustained growth over the past decades, approximately 23.85 million people, or 8.5% of the population remain economically disadvantaged.⁴ Development outcomes remain uneven across the archipelago's more than 17,000 islands. Java remains the center of Indonesia's population and economic activity, hosting more than half of the national population and contributing 56.9% of national GDP in 2025, despite holding only around 6% of the archipelago's available water resources.⁵ This concentration places increasing pressure on the island's limited land and water resources and its carrying capacity.⁶ Outer island regions, including Kalimantan, Papua, Sulawesi, and Nusa Tenggara, hold the bulk of Indonesia's remaining natural capital, including forest cover, peatlands, and biodiversity assets, but continue to record lower human development outcomes, thinner infrastructure networks, and decreased institutional capacity.

1.2. Indonesia's development trajectory is further constrained by a significant and widening infrastructure financing gap. The National Medium-Term Development Plan 2025–2029 (RPJMN) estimates total infrastructure investment needs of IDR1,905.3 trillion over the 2025–2029 plan period, of which public financing, through national and subnational budgets, is expected to cover only around 60%, leaving a gap of approximately IDR753 trillion.⁷ Closing this gap will require a substantial scale-up of private capital mobilization. However, the regulatory, institutional, and data systems required to attract and deploy private investment, particularly in climate-critical sectors, remain underdeveloped. This challenge is even more pronounced in the climate domain, where the Second Nationally Determined Contribution (SNDC) estimates total investment needs of approximately USD472.6 billion for the 2031–2035 NDC commitment period to meet Indonesia's climate commitments, far exceeding available public resources and underscoring the importance of policy and institutional reform to unlock climate finance at scale.⁸ Mobilizing climate finance at scale requires not only additional resources but also stronger institutional, policy, planning, data,

¹ BPS-Statistics Indonesia. 2024. Indonesia Population Projection 2020–2050. Jakarta. See also Government of Indonesia. 2025. National Long-Term Development Plan (RPJPN) 2025–2045. Jakarta: Ministry of National Development Planning/Bappenas.

² BPS-Statistics Indonesia. 2025. Indonesian Economic Growth, Fourth Quarter 2024. Jakarta. February 5, 2025. See also International Monetary Fund (IMF). 2026. Indonesia: 2026 Article IV Consultation—Staff Report. IMF Country Report No. 26/10. Washington, DC.

³ Government of Indonesia. 2025. National Medium-Term Development Plan (RPJMN) 2025–2029. Presidential Regulation No. 12/2025. Jakarta. See also Government of Indonesia. 2025. National Long-Term Development Plan (RPJPN) 2025–2045. Jakarta: Ministry of National Development Planning/Bappenas.

⁴ BPS-Statistics Indonesia. 2025. Poverty Profile in Indonesia, March 2025. Press Release No. 2518. Jakarta. July 25, 2025.

⁵ BPS-Statistics Indonesia. 2021. *The 2020 Population Census Results*. Jakarta; BPS-Statistics Indonesia. 2026. *Indonesian Economic Growth, Fourth Quarter 2025*. Jakarta. February 5, 2026; and WB. 2021. *Indonesia: Vision 2045—Towards Water Security*. Washington, DC.

⁶ Government of Indonesia. 2025. *National Medium-Term Development Plan (RPJMN) 2025–2029*. Presidential Regulation No. 12/2025. Jakarta; and WB. 2021. *Indonesia: Vision 2045—Towards Water Security*. Washington, DC.

⁷ Government of Indonesia. 2025. *National Medium-Term Development Plan (RPJMN) 2025–2029*. Presidential Regulation No. 12/2025. Jakarta.

⁸ Republic of Indonesia. 2025. *Second Nationally Determined Contribution*. Jakarta. October 2025.

and systems capable of identifying, prioritizing, preparing, financing, and implementing climate-resilient investments.

1.3. Climate Change Challenges and Vulnerabilities. Indonesia is highly exposed to climate-related hazards, including floods, sea-level rise, droughts, landslides, storms, tropical cyclones, and wildfires. Climate-related events account for over 99% of recorded disasters in Indonesia, with annual economic losses estimated at over 6% of Gross Domestic Product (GDP).⁹ Under a high-emission scenario, climate-related impacts could reduce GDP by 5.8% by 2035 and 13.5% by 2050, eroding the growth required to raise per capita income to the USD23,000–30,300 range and reduce the poverty rate to 0.5–0.8% by 2045.¹⁰ These risks directly threaten Indonesia's Vision 2045 trajectory, which depends on sustained growth, poverty reduction, higher productivity, and more balanced regional development.

1.4. Climate risks in rural areas are central to Indonesia's poverty reduction, food security, and long-term development agenda. Rural households are especially exposed because poverty remains higher in rural areas and many livelihoods depend on climate-sensitive agriculture and local food systems. In March 2025, the rural poverty rate was 11.03%, compared with 6.73% in urban areas.¹¹ Rising temperatures, shifting rainfall patterns, drought, floods, pests, and crop diseases are already affecting food production, with harvested paddy area declining from 10.45 million hectares in 2022 to 10.05 million hectares in 2024, and rice production for food consumption falling from 31.54 million tons to 30.62 million tons over the same period.¹² These risks are amplified by Indonesia's highly fragmented smallholder farming structure, with 17.25 million farmers cultivating less than 0.5 hectares,¹³ uneven irrigation service reliability,¹⁴ and varying village capacity to plan, finance, and implement climate-adaptive rural development priorities.¹⁵

1.5. Indonesia's natural ecosystems are critical infrastructure for climate resilience, food and water security, and long-term growth. Mangroves, peatlands, forests, watersheds, and coastal ecosystems regulate water flows, stabilize soils, buffer coastal and riverine hazards, store carbon, and protect productive land, settlements, and basic service systems. Indonesia has the world's largest mangrove area, estimated at around 3.4 million hectares, and about 13.43 million hectares of peatlands.¹⁶ These assets are already under pressure from land-use change, drainage, drought, fire, coastal erosion, and sea-level rise. Peat fires remain a major climate and livelihood risk: in 2015, peat fire emissions were estimated at more than 800 MtCO₂e (Million

⁹ National Adaptation Plan (NAP) Republic of Indonesia 2026–2030 on The Pathway Toward 2035, citing BNPB 2025 and Government of Indonesia 2022b.

¹⁰ ADB. 2024. [Asia-Pacific Climate Report 2024: Catalyzing Finance and Policy Solutions](#); Undang-Undang No. 59 Tahun 2024 tentang RPJPJN 2025–2045, Pasal 5.

¹¹ BPS–Statistics Indonesia, "In March 2025, the Percentage of the Poor Population Decreased to 8.47 Percent," press release, July 25, 2025. The release reports poverty rates of 11.03% in rural areas and 6.73% in urban areas in March 2025.

¹² Badan Pusat Statistik. 2023. *Luas Panen dan Produksi Padi di Indonesia 2023*. Berita Resmi Statistik, October 16. Jakarta; Badan Pusat Statistik. 2025. *Luas Panen dan Produksi Padi di Indonesia 2024*. Berita Resmi Statistik, February 3. Jakarta.

¹³ Badan Pusat Statistik. 2023. *Hasil Pencacahan Lengkap Sensus Pertanian 2023—Tahap I*. Jakarta.

¹⁴ WB. 2022. *Indonesia Pioneers Irrigation Service Delivery Innovation*. Washington, DC; WB. 2024. *Making Every Drop Count: Rebuilding Small-Scale Irrigation in Indonesia to Counter Climate Change*. Washington, DC.

¹⁵ Ministry of Villages and Development of Disadvantaged Regions. 2024. *Ministerial Regulation No. 2/2024 on Operational Guidelines for the Focus of Village Fund Use in 2025*. Jakarta.

¹⁶ WB. 2024. *Indonesia Sustainable Landscapes Management Program: Critical Role of Mangroves for Livelihoods, Resilience, and Climate*. Washington, DC; Anda, M., et al. 2021. "Revisiting Tropical Peatlands in Indonesia: Semi-Detailed Mapping, Extent and Depth Distribution Assessment." *Geoderma* 402: 115235.

metric tonnes of carbon dioxide equivalent), while forest and land fires burned around 2.6 million hectares and caused substantial economic, health, and environmental losses.¹⁷ Climate change is expected to further increase ecosystem stress, including mangrove retreat, coral bleaching, peatland degradation, biodiversity loss, and expansion of fire-prone landscapes across degraded peatlands.¹⁸ Continued ecosystem degradation would decrease water security, soil fertility, local livelihoods, coastal protection, drainage performance, and disaster-risk reduction, while increasing the cost of built infrastructure and adaptation.

1.6. Climate-resilient cities and local services are essential to productivity, inclusion, investment confidence, and continuity of economic activity. About 59% of Indonesia's population is urban, making cities central to the economy's transition to high-income status.¹⁹ Yet urban climate vulnerability is rising as floods, extreme rainfall, heat, drought, water stress, and unmanaged waste increasingly affect infrastructure, health, mobility, and business continuity. Flood exposure is particularly material: an estimated 76 million Indonesians, or about one-quarter of the population, live in high-risk flood zones, including many poor and vulnerable households.²⁰ These risks are compounded by gaps in basic service delivery. Access to safely managed drinking water remains low, while nearly 70% of tested household drinking-water sources were found to be contaminated by fecal waste.²¹ Solid waste management also remains a major urban resilience challenge: 2024 National Waste Management Information System (SIPSN) data from reporting districts and cities recorded more than 30 million tons of waste, with over 40% unmanaged.²²

1.7. Government Strategies, Programs and Priorities. Indonesia's climate-adaptation agenda is already embedded in the national planning framework. The RPJPN 2025–2045 positions low-carbon and climate-resilient development as necessary for Indonesia's transition to high-income status and sets a target to reduce greenhouse gas (GHG) emission intensity by 93.5% from 2010 levels by 2045. The RPJMN translates this direction into priorities for food, energy and water security, rural and regional development, the green and blue economies, infrastructure, and environmental resilience. The SNDC reinforces Indonesia's adaptation and resilience commitments, while the National Adaptation Plan 2026–2030 on the Pathway Toward 2035 identifies food, water, energy, health, and ecosystems as priority resilience systems and emphasizes domestic public finance, complemented by international and private financing. The LTS-LCCR 2050 and the Indonesian Biodiversity Strategy and Action Plan further integrate climate resilience and ecosystem protection into Indonesia's long-term development pathway.

1.8. In rural areas, the Government is prioritizing food self-sufficiency and village-led development to improve livelihoods and reduce spatial disparities. The Government has initiated

¹⁷ Government of Indonesia. 2021. *Third Biennial Update Report under the United Nations Framework Convention on Climate Change*. Jakarta; WB. 2016. *The Cost of Fire: An Economic Analysis of Indonesia's 2015 Fire Crisis*. Indonesia Sustainable Landscapes Knowledge Note. Washington, DC.

¹⁸ Government of Indonesia. 2025. *National Adaptation Plan: Republic of Indonesia 2026–2030 on the Pathway Toward 2035*. Jakarta.

¹⁹ WB. 2025. *World Development Indicators: Urban Population (% of Total Population) — Indonesia*. Washington, DC. The indicator is based on United Nations Population Division, *World Urbanization Prospects*.

²⁰ WB. 2022. WB Approves Support to Improve Flood Resilience and Risk Management in Indonesia. Washington, DC. WB notes that about 76 million Indonesians live in high-risk flood zones, including many disadvantaged households.

²¹ UNICEF Indonesia. 2024. *WASH Acts – 2024 Edition*. Jakarta; UNICEF Indonesia. 2022. "Indonesia: Nearly 70% of household drinking water sources contaminated by fecal waste." Jakarta.

²² Ministry of Environment, National Waste Management Information System (SIPSN), 2024 data; Katadata. 2025.

reforms to strengthen agricultural-extension services and irrigation governance, integrate the Village Climate Risk Index into Village Fund allocations, and improve institutional support for social forestry communities and enterprises. While these reforms establish an important policy and institutional foundation, further efforts are needed to systematically integrate climate-smart agriculture into extension services, strengthen climate-informed irrigation management, translate climate-risk information into village-level investment decisions, and improve the financing readiness of social forestry enterprises. These implementation gaps provide the rationale for the Program's support under Reform Area 1.

1.9. Indonesia's adaptation and development strategies increasingly recognize ecosystems as natural infrastructure for water regulation, disaster-risk reduction, carbon storage, biodiversity, and livelihoods. To advance this priority, the Government has strengthened national frameworks for mangrove protection and management, environmental protection and management planning, and payment for environmental services. Further operationalization is, however, required to strengthen subnational planning, improve the use of environmental plans in public investment decisions, and establish effective implementation and financing arrangements for ecosystem stewardship. Addressing these implementation gaps is a key objective of the Program under Reform Area 2.

1.10. For local service delivery, the Government has initiated reforms to strengthen the framework for subnational infrastructure financing, improve national coordination and performance information for solid-waste management, and promote more integrated and climate-resilient planning for drinking-water supply and sanitation. Continued efforts are needed to strengthen project preparation, improve coordination and data systems, enhance service-performance incentives, and more systematically integrate climate resilience into subnational planning, investment prioritization, and financing. These implementation gaps provide the basis for the Program's support under Reform Area 3.

1.11. The Climate Adaptation and Green Resilience Program (the Program) supports the Government in addressing these remaining implementation bottlenecks that constrain the effective operationalization of its climate adaptation agenda. The Program is organized around three mutually reinforcing reform areas including a Climate-Adaptive Rural Economy, Ecosystem-Based Climate Resilience, and resilient local service delivery, which respond directly to the priority implementation gaps identified in paragraphs 1.6 to 1.8 above. Across these reform areas, the Program supports policy and institutional reforms to strengthen institutional coordination, implementation capacity, climate-informed planning and investment decision-making, data and performance systems, project preparation, and access to financing for climate-resilient investments. These reforms are expected to strengthen the enabling environment for climate adaptation and facilitate increased adaptation finance, providing the basis for the Program design described in Section 2.

2. Program Description

A. Program Overview

2.1. **Development Objectives.** The Program Development Objective is to support Indonesia's policy and institutional reforms to strengthen climate resilience in the rural economy, ecosystems, and local service delivery.

2.2. **Scope.** The Program is organized around three Reform Areas. These Reform Areas were selected because they address the principal implementation bottlenecks identified in Section 1 and are central to advancing priorities under Indonesia's Vision 2045 and national adaptation agenda. Reform Area 1, Climate-Adaptive Rural Economy, strengthens climate-informed agricultural extension and irrigation management, climate-responsive village planning and budgeting, and the financing readiness of social forestry enterprises. Reform Area 2, Ecosystem-Based Climate Resilience, strengthens the protection and management of ecosystems as natural resilience infrastructure and their integration into planning, investment, and financing decisions. Reform Area 3, Resilient Local Service Delivery, strengthens subnational financing for climate adaptation investments, and supports improvement in the planning and delivery of solid waste, drinking water, and sanitation services. Across the three Reform Areas, ten Prior Actions were selected based on government ownership and reform readiness, climate relevance, their ability to address binding implementation constraints, their contribution to strengthening the enabling environment for climate adaptation and downstream investment, and their measurability within the Program period. The Prior Actions are set out in the Policy and Results Matrix and summarized in Section B.

2.3. **Programmatic Structure.** The Program is the first in a programmatic series comprising two subprograms. Under the proposed Program, Subprogram 1 (SP1) supports the foundational policy and institutional reforms undertaken by the Government that establish the enabling framework for the programmatic series. Subprogram 2 (SP2) is expected to deepen and operationalize these reforms. The second subprogram is expected to be approved in 2028. The programmatic approach provides a framework for sequencing reforms, maintaining policy dialogue, incorporating implementation experience, and progressively strengthening reform outcomes, while retaining the flexibility to refine subsequent actions in response to implementation progress and evolving government priorities.

2.4. **Eligibility.** The Program meets the eligibility requirements of AIIB's Operational Policy on Financing and the CPBF Framework. It supports a government-owned reform program that is fully aligned with Indonesia's Nationally Determined Contribution, National Adaptation Plan, Long-Term Strategy for Low Carbon and Climate Resilience, and National Medium-Term Development Plan. The Program has a strong adaptation focus alongside mitigation co-benefits and supports reforms and is underpinned by an adequate macroeconomic policy framework, as assessed in Section 3.

2.5. **Increasing Adaptation Finance.** A defining feature of AIIB's CPBF is its focus on strengthening the conditions for scaling up adaptation finance. Public finance, through national

and subnational budgets, remains the foundation of Indonesia's adaptation-finance system, while international concessional finance, private and blended finance, and other sources are expected to complement public resources. Indonesia's adaptation-finance architecture links planning through the Application for Planning and Monitoring Low-Carbon Development Actions (AKSARA), budgeting and expenditure tracking through Climate Budget Tagging, and registration and reporting through SRN-PPI. BPDH complements these systems by pooling and channeling funds from public, international, and private sources, as well as financing channels such as performance-based fiscal transfers, results-based financing, revolving funds, and Village Funds. However, available finance remains insufficient relative to adaptation needs, subnational capacity to access and manage finance is uneven, and methods for measuring adaptation results and returns from resilience investments remain underdeveloped.²³ The Program addresses selected constraints through reforms such as linking climate risk to Village Fund allocations and expenditures, strengthening the financing readiness of social forestry enterprises, operationalizing payment for environmental services, and supporting the identification and preparation of subnational adaptation investments.

2.6. Proposed Financing. The Ministry of Finance (MoF) has requested financing support for a programmatic series comprising two-subprograms with an indicative financing envelope of USD1 billion. AIIB financing of USD500 million is proposed for SP1. Subject to satisfactory implementation progress, continued adequacy of the macroeconomic policy framework, and further preparation, and separate approval under AIIB's applicable policies and procedures, SP2 is expected to be supported through a second operation with indicative AIIB financing of USD500 million.

2.7. Other Potential Financiers. KfW and AFD have expressed interest in supporting SP1 and are working closely with the Government and AIIB during its preparation. The scope and amount of their prospective support remain subject to the completion of their internal approval processes. Both institutions have also indicated preliminary interest in supporting SP2, with the scope and amount of such support to be determined during the preparation of SP2.

2.8. Strategic Fit for AIIB. The Program is strongly aligned with AIIB's Corporate Strategy. It supports the Bank's Green Infrastructure thematic priority by advancing policy and institutional reforms that strengthen the systems through which the Government can plan, finance, and deliver climate-resilient infrastructure and local environmental improvements, including in water management and sanitation, solid waste, pollution control, ecosystem restoration, and nature-based solutions. The Program also has a tangible link to AIIB's infrastructure mandate by addressing the upstream policy, planning, coordination, data, and financing constraints that limit the development of credible downstream climate-resilient infrastructure investment pipelines.

2.9. Alignment with Sector Strategies and CPBF Priorities. The Program is also aligned with AIIB's Sustainable Cities Strategy and Water Sector Strategy. It supports the Sustainable Cities Strategy by strengthening the enabling environment for basic infrastructure and city resilience, particularly through reforms related to subnational infrastructure financing, solid waste

²³ Republic of Indonesia. 2025. *National Adaptation Plan of Indonesia 2026–2030: On the Pathway Toward 2035*.

management, and water supply and sanitation. It supports the Water Sector Strategy by strengthening the policy and institutional basis for improved water services, climate-smart irrigation, integrated water and environmental resource management, resilience to water-related climate risks, and sustainable financing. Consistent with AIIB's CPBF priorities, the Program has a strong adaptation focus with mitigation co-benefits and supports policy and institutional reforms that can help scale adaptation finance and link climate policy reform to downstream climate-resilient infrastructure investment.

2.10. Paris Alignment and Climate Finance. The Paris Agreement Alignment assessment was carried out based on the Joint Multilateral Development Bank (MDB) Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023. By definition, an operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered “Paris-aligned”. The Program is assessed to be aligned with both the mitigation (BB1) and adaptation and resilience (BB2) goals of the Paris Agreement. The Program supports Indonesia's policy and institutional reforms to support low-carbon development and strengthen climate adaptive capacity in the rural economy, ecosystems, and climate-resilient local service delivery.

2.11. Based on the joint MDB methodologies for tracking climate mitigation and adaptation finance, USD462.50 million, equivalent to 92.50% of AIIB financing, qualifies as climate finance. This amount comprises USD343.75 million in climate adaptation finance, equivalent to 68.75% of AIIB financing, and USD118.75 million in climate mitigation finance, equivalent to 23.75% of AIIB financing. Of the total climate finance amount, USD187.50 million is assessed as delivering dual adaptation and mitigation benefits. A detailed calculation and assessment against the Program's alignment with the Paris Agreement are included in Annex 2.

2.12. Value Addition by AIIB. Beyond financing, AIIB's value addition during preparation includes helping the Government structure and sequence its own reform agenda into a coherent, climate-focused programmatic CPBF. Working with government counterparts, AIIB supported the definition of the three Reform Areas, clarified the theory of change from SP1 to SP2, and helped identify Prior Actions that are sufficiently material and verifiable, and helped sharpen realistic SP2 Indicative Prior Actions and results indicators, drawing on Indonesia's climate-vulnerability context, its recognized climate action plans, relevant analytical work, and lessons from previous operations. As part of this process, AIIB also coordinated with relevant development partners to test the Program's reform logic, identify complementarities, avoid duplication, and explore potential support for SP2, as described in the Complementarities and Synergies (2.17) and Collaboration (2.36) sections.

2.13. This design support was informed in part by AIIB's analytical work, including *Asian Infrastructure Finance 2023: Nature as Infrastructure* and *Unlocking Private Finance for Nature as Infrastructure: A Public-Private Partnership* (2025). These studies frame ecosystems as infrastructure assets, emphasize the importance of incorporating ecosystem-service values into development decisions, and identify approaches for integrating nature into planning, budgeting, revenue mechanisms, and financing structures. Their findings are particularly relevant to the

Program's reforms on mangrove protection, environmental planning, payment for environmental services, and the development of downstream nature-based investment opportunities.

2.14. During implementation and preparation of SP2, AIIB will continue to provide value through sustained policy dialogue, support to the Government-led inter-ministerial TWG, targeted stakeholder consultations, analytical support, and coordination with development partners. This support will focus on reform sequencing, implementation readiness, results measurement, adaptation-related monitoring and reporting, and identification of downstream investment opportunities that may be supported through future investment lending, results-based financing, blended finance, or other climate finance instruments. More intensive follow-up support will focus on areas with direct links to AIIB operations and potential downstream investments.

2.15. **Value Addition to AIIB.** As the first standalone programmatic CPBF, the Program will deepen the Bank's long-term engagement with the Government on climate adaptation and resilience and strengthen its relationships with Bappenas, the MoF, and the participating sector ministries. It will also expand AIIB's institutional knowledge of how policy, planning, fiscal, and financing reforms can be sequenced to support climate-resilient infrastructure and local service delivery. Experience from the Program will inform the Bank's future use of programmatic CPBF, particularly in structuring reform sequences, maintaining policy dialogue across subprograms, monitoring adaptation-related results, and linking policy reforms with downstream investment opportunities. The Program will also strengthen AIIB's partnerships with bilateral and multilateral development partners active in Indonesia's climate and infrastructure agenda.

2.16. The Program will support AIIB's future economy programming by helping identify policy and institutional reforms that can generate or strengthen pipelines of climate-resilient investments. These opportunities will inform the ongoing update of the Multi-Year Rolling Pipeline and may include climate-resilient irrigation and water security, water supply and sanitation, integrated solid-waste management, subnational infrastructure financing, mangrove restoration, watershed protection, and other ecosystem-based investments. Depending on their readiness and alignment with AIIB's mandate, such opportunities could be considered for future investment lending, results-based financing, blended finance, technical assistance, or partnerships with other financiers.

2.17. **Complementarities and Synergies with Other Operations.** The Program is complemented by AIIB and development-partner operations and support relevant to implementation of the reform program and achievement of its results. The discussion distinguishes between: (i) complementarity within AIIB's portfolio; (ii) coordination with development partners; and (iii) complementary financing and technical assistance supporting implementation.

- i. Complementarity within AIIB's Portfolio. The Program complements AIIB's other CPBF operations in Indonesia through its distinct focus on climate adaptation. It complements the proposed Green Transition and Climate-Resilient Economic Development Program (P001145), which supports the enabling environment for climate investment, the low-carbon

transition in high-emitting sectors, and the resilience of marine, coastal, and wetland ecosystems, and the proposed Affordable and Sustainable Energy Transition Program (P001048), which supports policies and regulatory frameworks for the clean-energy transition and stronger energy-sector governance and financial sustainability. The Program also complements the AIIB-financed Solid Waste Management for Sustainable Urban Development Project (P000769), which provides financing, institutional strengthening, and capacity building to support local implementation of the solid-waste reforms under Reform Area 3.

- ii. *Coordination with Development Partners.* AIIB has engaged with relevant multilateral and bilateral development partners to share information, clarify respective areas of support, identify complementarities, and avoid duplication. Given their interest in prospective budget support, coordination with KfW and AFD includes closer engagement on the scope and sequencing of their prospective support and its alignment with the Program. AIIB has also coordinated with the Australian Government, through the Department of Foreign Affairs and Trade (DFAT), as well as the Global Green Growth Institute (GGGI), the United Nations Office for Disaster Risk Reduction (UNDRR), the International Fund for Agricultural Development (IFAD), the United Nations Office for Disaster Risk Reduction (UNDRR), Asian Development Bank (ADB), and World Bank (WB) on relevant ongoing and planned operations and technical support. The coordinated approach is described further in the Collaboration section.
- iii. *Complementary Financing and Technical Assistance.* Several development-partner operations provide financing, technical assistance, capacity building, analytical support, and implementation experience relevant to the Program's reform implementation and achievement of its results. Further details on these complementary operations and support are provided in Annex 6. Prospective complementary support is also being explored. KfW and AFD have indicated that complementary technical assistance for selected reforms may accompany their prospective budget support. Discussions have identified potential areas of support including social forestry and ecosystem-based resilience; water supply, sanitation, and solid-waste management; the use of climate and hydrometeorological information in agriculture, irrigation, and climate-risk management; and the identification and preparation of climate-resilient investments. Any such support remains subject to further preparation, agreement with the Government, and the respective institutions' approval and administrative processes. AIIB is also exploring potential technical assistance through the Joint MDB Long-Term Strategy Program to support selected areas of reform implementation.

2.18. Lessons Learned. The design of the Program has been informed primarily by lessons from AIIB-financed operations in Indonesia with similar institutional and implementation contexts, particularly the Strategic Irrigation Modernization and Urgent Rehabilitation Project, the National Slum Upgrading Project, and the Regional Infrastructure Development Fund Project. These lessons are complemented by evaluations of policy and investment operations supported by other development partners and by in-country consultations undertaken during preparation.

- i. *Institutional reform in Indonesia needs to be followed by clear implementation standards and service-accountability arrangements.* Experience from AIIB-Strategic Irrigation Modernization and Urgent Rehabilitation Project and the Sustainable and Inclusive Energy Program shows that changes in institutional mandates or regulatory frameworks do not automatically improve service delivery unless they are supported by updated competencies, practical guidance, financing arrangements, technical assistance, and monitoring systems. The CPBF applies this lesson by not stopping at legal or institutional reform but supporting the development of operational frameworks that can improve the quality and consistency of climate-relevant services.²⁴
- ii. *Subnational and frontline capacity is often the binding constraint, not the absence of national policy.* Experience from the AIIB-National Slum Upgrading Project, the Improved Village Service Delivery Project, the Strengthening of Social Forestry in Indonesia Project, and other local service-delivery programs shows that national programs perform better when local governments, village institutions, farmer groups, utilities, and community organizations receive practical facilitation and technical support. This lesson is reflected in the CPBF design through its emphasis on implementation systems, capacity support, and locally usable tools, rather than assuming that national policy issuance will automatically change behavior at the local level.²⁵
- iii. *Fiscal transfers and community-based programs need investment guidance and accountability to produce climate outcomes.* Experience from the National Slum Upgrading Project showed that subnational and community financing was more effective when linked to integrated plans, technical standards, quality-assurance systems, implementation support, and community participation. Complementary experience from the Improved Village Service Delivery Project reinforces the importance of appropriate incentives, participatory planning, transparent implementation, and monitoring. The CPBF therefore supports a stronger link between climate-risk information, village-level planning, and the quality of local climate-resilient investments.²⁶
- iv. *Downstream infrastructure financing requires credible project preparation before financing can scale.* Experience from the AIIB - Regional Infrastructure Development Fund Project shows that subnational infrastructure pipelines can be constrained by deficient feasibility studies, limited project-preparation capacity, inadequate data, and limited financing readiness. CPBF applies this lesson by linking policy reform with investment identification and early-stage preparation, sector data, performance monitoring, and investment-readiness mechanisms that can support future climate-resilient infrastructure pipelines.²⁷
- v. *Ecosystem-based resilience requires site-specific technical design, tenure clarity, and livelihood-sensitive implementation.* Experience from the Strengthening of Social Forestry in Indonesia Project and the ongoing Mangroves for Coastal Resilience Project shows that

²⁴ Asian Infrastructure Investment Bank, [Indonesia: Strategic Irrigation Modernization and Urgent Rehabilitation—Project Completion Note \(Project No. P000060\)](#), 2026; Agence Française de Développement, [Evaluation of AFD Budget Support to the Sustainable and Inclusive Energy Program, Subprograms I and II, Indonesia](#) (Loans CID 1061 and CID 1067; Technical Assistance CID 1049), 2021.

²⁵ WB Independent Evaluation Group, [Improved Village Service Delivery—Implementation Completion Report Review \(P165543\)](#), 2025; WB Independent Evaluation Group, [Strengthening of Social Forestry—Implementation Completion Report Review \(P165742\)](#), 2026.

²⁶ WB Independent Evaluation Group, [Improved Village Service Delivery—Implementation Completion Report Review \(P165543\)](#), 2025.

²⁷ WB Independent Evaluation Group, [Regional Infrastructure Development Fund—Implementation Completion Report Review \(WB P154947; AIIB Project No. 000012\)](#), 2024.

restoration and conservation outcomes depend on site suitability, land and resource-use rights, community participation, viable livelihood incentives, benefit sharing, and monitoring arrangements. This lesson is reflected in the CPBF design by linking ecosystem-related reforms to technical methodologies, community participation, livelihood considerations, financing and benefit-sharing arrangements, and monitoring systems, rather than only to protection or rehabilitation targets.²⁸

B. Policy Actions, Results and Sustainability

2.19. Reform Areas, Prior Actions, Expected Results and Analytical Underpinnings. The Program comprises 10 Prior Actions (PAs) under SP1, together with associated indicative PAs under SP2, organized under three mutually reinforcing reform areas: (i) Climate-Adaptive Rural Economy; (ii) Ecosystem-Based Climate Resilience; and (iii) Climate-Resilient Local Service Delivery. The following section presents the SP1 Prior Actions, indicative SP2 Prior Actions, expected results, and analytical underpinnings for each reform area. See Annex 3 for more details.

Reform Area 1: Climate-Adaptive Rural Economy

2.20. The Program supports Reform Area 1 through four SP1 PAs that strengthen the institutional, financing, and service-delivery channels needed to improve the climate adaptive capacity of rural livelihoods. The reforms address bottlenecks in agricultural advisory services, irrigation governance, village-level climate adaptation financing and investment, and support for social forestry license holders and Community-Based Social Forestry Enterprises.

2.21. Prior Action 1.1. *To improve central coordination of agricultural extension services in support of food self-sufficiency, the Government has reformed the national agricultural extension services by transferring the state civil apparatus of extension workers (penyuluh pertanian) from provincial and local governments to the central government under the Ministry of Agriculture through Presidential Instruction No. 3/2025, dated February 4, 2025.*

- a) **Rationale:** Agricultural extension is the main public advisory channel through which farmers receive technical guidance on production practices, input use, water management, pest and disease control, and climate-related farm decisions. Prior to this reform, extension services were managed across subnational governments, contributing to uneven service quality, disparities in extension-worker distribution and competency, and inconsistent capacity development across regions.
- b) **Significance of SP1 Prior Action:** Central coordination under the Ministry of Agriculture provides a basis for setting national advisory priorities, updating competencies and training, allocating operational support, and monitoring service quality. It establishes the delivery channel needed to provide climate-smart agriculture advice to farmers at scale.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt national climate-smart agriculture (CSA) training modules and a rollout plan for

²⁸ WB Independent Evaluation Group, [Strengthening of Social Forestry—Implementation Completion Report Review \(P165742\)](#), 2026; WB, [Mangroves for Coastal Resilience Project—Project Appraisal Document \(P178009\)](#), 2022

extension workers. The modules would cover climate and weather information, crop and water management, pest and disease management, resource-efficient inputs, and technologies and practices that improve productivity and resilience. The rollout plan would specify priority locations, responsibilities, sequencing, annual targets, financing sources, and monitoring. The reform would also support uptake and sustainability of downstream investments in water management, improved inputs, post-harvest systems, digital advisory tools, and local climate-information services.

- d) **Expected Results:** The CPBF result is the percentage of extension workers in priority high climate-risk areas completing CSA training. The baseline is 0%, and the target is 20% by 2029.²⁹ This will establish an initial trained cohort and support wider rollout. More climate-resilient production will require trained workers to deliver climate-informed advice, supported by adequate deployment, supervision, budgets, updated content, and complementary farmer services and inputs.
- e) **Analytical Underpinning:** WB Indonesia's Country Climate and Development Report (CCDR), WB/CIAT CSA Profile, Food and Agriculture Organization of the United Nations (FAO) CSA Sourcebook, and Effendi et al. (2024) identify the need for a coordinated extension system capable of delivering practical CSA guidance and climate information in high-risk areas.

2.22. Prior Action 1.2. *To accelerate coordinated irrigation development and maintenance in support of food self-sufficiency, a centralized and coordinated framework has been established for the development, upgrading, rehabilitation, and operation and maintenance of irrigation networks through Presidential Instruction No. 2/2025, dated January 30, 2025.*

- a) **Rationale:** Reliable irrigation is essential for food security, rural livelihoods, and resilience to drought, rainfall variability, and water stress. However, irrigation responsibilities are distributed across central agencies, provincial and district governments, irrigation commissions, and farm water user organizations, resulting in declining service standards, accountability, and impacting Operation and Maintenance (O&M) financing, and on alignment between rehabilitation, cropping decisions, and climate-informed water management.
- b) **Significance of SP1 Prior Action:** The Prior Action establishes a stronger mandate for coordinated action on irrigation construction, upgrading, rehabilitation, and operation and maintenance, which is significant because it provides the institutional foundation for linking irrigation infrastructure planning with climate smart operation and maintenance, water use efficiency, service reliability, and sustainable financing.
- c) **Significance of SP2 Indicative Prior Action:** Under SP2, the Government is expected to establish a climate-smart O&M framework for tertiary irrigation systems, where water delivery directly affects farm-level access, cropping decisions, and adaptation to drought, rainfall variability, and water stress. The framework would clarify institutional roles, service standards, financing considerations, use of hydrological and climate information, planning requirements,

²⁹ The target of 20% reflects an initial rollout following the expected adoption of the national training modules and rollout plan in 2028, leaving approximately one year for implementation before results are measured in 2029. It recognizes that nationwide coverage will require a multi-year effort extending beyond the program period and therefore represents a realistic initial phase that could subsequently be scaled through continued government implementation and complementary follow-on support, such as a future results-based financing operation.

and monitoring and reporting. It would guide subnational governments and farmer water-user organizations in preparing climate-smart O&M plans.

- d) **Expected Results:** The CPBF result is the percentage of priority tertiary irrigation systems with validated climate-smart O&M plans. The baseline is 0%, and the target is 20% by 2029.³⁰ Priority systems will be selected based on food-production importance, climate and water stress, asset status, and P3A readiness. Implementation of the plans should strengthen climate-informed irrigation management, while improved reliability, water efficiency, and agricultural resilience will also require adequate financing, technical support, capable water-user organizations, asset handover, and infrastructure investment.
- e) **Analytical Underpinning:** WB Indonesia's CCDR, WB irrigation diagnostics, ADB's Indonesia Country Water Assessment, and OECD water-financing work identify fragmented responsibilities, water scarcity, low accountability, and underfunded O&M as key causes of the “build, neglect, and rebuild” cycle.

2.23. Prior Action 1.3. *To strengthen climate adaptation mainstreaming in intergovernmental fiscal transfers, the Government has integrated the Village Climate Risk Index (IRID) into the Dana Desa³¹ (Village Fund) allocation system directing additional resources to climate-vulnerable communities through Ministry of Finance Regulation No. 7/2026, dated February 9, 2026.*

- a) **Rationale:** The Village Fund is Indonesia's main fiscal channel for village development, but allocations have not systematically reflected differences in climate and disaster risk. This creates a mismatch between vulnerability and available resources, particularly in villages with high exposure, sensitivity, and limited adaptive capacity, and decreases risk-informed investment prioritization.
- b) **Significance of SP1 Prior Action:** MoF Regulation No. 7/2026 introduces the Village Climate Risk Index into the Village Fund allocation system. This is significant because it gives the fiscal transfer formula a more explicit climate-risk basis and creates a mechanism for directing additional resources toward more climate-vulnerable villages.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt an IRID-based operational framework for climate-resilient village development. The framework would guide villages in using IRID to identify risks, prioritize eligible resilience activities, and incorporate them into existing planning and budgeting processes in line with local conditions and capacity. It would include eligible activity menus, basic appraisal principles, implementation procedures, reporting requirements, and monitoring arrangements. This addresses the gap between risk-based allocation and effective adaptation spending.
- d) **Expected Results:** The CPBF result is the percentage of villages receiving the IRID-based Affirmation Allocation that budget for eligible climate-resilience activities. The baseline is 0%, and the target is 80% by 2029.³² This should translate climate-risk-informed allocations into

³⁰ The target of 20% reflects an initial application of the framework following its expected adoption in 2028, leaving approximately one year for the preparation and validation of O&M plans before results are measured in 2029. It recognizes that broader coverage will require a multi-year effort extending beyond the program period and therefore represents a realistic initial phase that could subsequently be scaled through continued government implementation and complementary follow-on support, including a future results-based or investment-financing operation, subject to separate preparation and approval.

³¹ Dana desa (village fund) is funds allocated from Indonesia's national budget (APBN) and transferred to villages to finance village governance, development, community development, and community empowerment.

³² The 80% target reflects the expectation that most villages receiving the IRID-based Affirmation Allocation can apply the operational guidance through existing annual planning, budgeting, and reporting processes. The target remains below full coverage because

village plans and budgets. Reduced vulnerability will depend on effective implementation and maintenance, supported by adequate facilitation, technical capacity, and financing. The indicator measures budget allocation.

- e) **Analytical Underpinning:** Informed by WB Indonesia's CCDR, Delivering Together, and the Sentinel Villages Report, the reform links climate-risk information with village fiscal allocation, while recognizing that guidance, facilitation, and reporting are needed for Village Funds to translate into resilience outcomes.

2.24. Prior Action 1.4. *To improve institutional support for social forestry implementation and facilitation of Community-Based Social Forestry Enterprises (KUPS), the Government has strengthened the Social Forestry Center framework through Ministry of Forestry Regulation No. 7/2025, dated March 19, 2025.*

- a) **Rationale:** Forests regulate water, reduce erosion and flood risk, store carbon, support biodiversity, and sustain forest-dependent livelihoods. Although social forestry has expanded legal access to forest areas, many social forestry groups and KUPS remain constrained by inadequate business readiness, limited finance and markets, inconsistent product quality, and underdeveloped value chains. These constraints limit the conversion of legal access into sustainable ecosystem management and conservation-linked livelihoods.
- b) **Significance of SP1 Prior Action:** Regulation No. 7/2025 clarifies the mandate, organization, office locations, section offices, and working areas of Social Forestry Centers. The strengthened network provides a more localized platform for facilitation, technical verification, mentoring, partnerships, enterprise development, and oversight. It is expected to improve support for sustainable forest management, local resilience, and forest-based livelihoods.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt a financing framework identifying climate and blended-finance mechanisms for KUPS and social forestry license holders and defining access criteria. The framework would specify eligible value chains and conservation activities, required evidence of financing readiness, and arrangements for Social Forestry Centers to verify and communicate the criteria and assist applicants.
- d) **Expected Results:** The CPBF result is the number of Gold- and Platinum-class KUPS verified against the financing framework's eligibility criteria. The baseline is 0, and the target is 20 by 2029.³³ This will establish an initial pipeline of finance-ready enterprises. Improved access to finance, stronger value chains, resilient livelihoods, and better forest stewardship will depend on continued facilitation, compliance with sustainable-management requirements, market access, suitable financing, and productive investment.

Village Fund spending decisions are discretionary and village capacity and reporting readiness vary, particularly in disadvantaged districts. As the indicator measures budget allocation rather than completion of physical investments, a relatively high target is considered realistic.

³³ The Ministry reported 1,350 Gold and 120 Platinum KUPS in 2025. Gold and Platinum classification indicates that a KUPS has reached a relatively advanced level under the existing Government classification system. However, these classifications do not necessarily demonstrate readiness for a specific climate, blended-finance, loan, or investment facility. Some Gold and Platinum KUPS may already satisfy most requirements, while others may require further support before they can be verified. The target of 20 therefore represents an initial cohort that can be rigorously assessed against the new financing-readiness framework within the available implementation period. It reflects the time and capacity required to establish and socialize the criteria, identify suitable candidates, provide targeted facilitation where needed, and complete credible verification within the implementation period between the expected adoption of the SP2 reform in 2028 and final results measurement in 2029.

- e) **Analytical Underpinning:** Informed by WB Indonesia's CCDR, WB social forestry analysis, and AIIB's Nature as Infrastructure Report, the reform reflects the need to complement social forestry access with facilitation, technical support, livelihood development, and financing pathways for KUPS.

Reform Area 2: Ecosystem-Based Climate Resilience

2.25. The Program supports Reform Area 2 through three SP1 PAs that strengthen the policy, planning, and financing foundations for Ecosystem-Based Climate Resilience. The reforms recognize mangroves, forests, watersheds, peatlands, and coastal ecosystems as natural resilience infrastructure that protect communities, infrastructure, productive assets, and livelihoods from climate-related risks while supporting biodiversity, carbon storage, water regulation, erosion control, and disaster-risk reduction.

2.26. **Prior Action 2.1.** *To strengthen mangrove ecosystem protection and management, the Government has established a national framework for the protection, management, rehabilitation, sustainable use, and conversion control of mangrove ecosystems, through Government Regulation No. 27/2025, dated June 5, 2025.*

- a) **Rationale:** Mangroves provide coastal protection, erosion control, fisheries support, livelihood benefits, biodiversity protection, and carbon storage. These functions are becoming increasingly important as coastal areas face sea-level rise, flooding, erosion, salinity intrusion, and other climate-related risks. However, mangrove management has been constrained by fragmented responsibilities across sectors and levels of government, as mangrove ecosystems often cut across forest, coastal, village, fisheries, aquaculture, tourism, and local spatial planning mandates. Additional constraints include uneven integration into development and spatial planning, and compromised links between ecosystem protection, rehabilitation priorities, monitoring, financing, and investment preparation.
- b) **Significance of SP1 Prior Action:** Regulation No. 27/2025 establishes a legal framework for mangroves inside and outside forest areas. It covers ecosystem identification, protection and rehabilitation, utilization and conversion control, responsibilities, monitoring, and financing needs. It also mandates Mangrove Ecosystem Protection and Management Plans (RPPEM) at national, provincial, and district/city levels, providing the basis for translating national objectives into subnational planning.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt an operational module for preparing provincial RPPEM and integrating them into development, budgeting, spatial, and sector planning. The module would help identify priority activities, responsibilities, indicative costs, monitoring indicators, and financing options, including climate, blended, and partnership financing where appropriate.
- d) **Expected Results:** The CPBF result is the number of priority provinces that prepare and submit provincial RPPEM under the operational module. The baseline is 0, and the target is 10 provinces by 2029.³⁴ Submission is used because formal approval may extend beyond the

³⁴ The target of 10 provinces reflects the initial cohort that had expressed commitment to prepare RPPEM as of June 2026: North Kalimantan, North Sumatra, Bangka Belitung Islands, Bengkulu, East Java, Central Sulawesi, Central Java, West Kalimantan, Southeast Sulawesi, and East Kalimantan.

Program period. Integration of RPPEM into provincial planning should improve prioritization, budgeting, financing, and monitoring of mangrove measures. Better ecosystem condition and coastal resilience will require implementation financing, technical support, community participation, coordination with spatial and coastal planning, and downstream investment.

- e) **Analytical Underpinning:** WB Indonesia's CCDR, WB mangrove economics work, AIIB's *Nature as Infrastructure*, and climate-risk diagnostics establish the value of mangroves for coastal protection, climate regulation, livelihoods, biodiversity, and blue carbon and the need for RPPEM-based planning, monitoring, and financing.

2.27. Prior Action 2.2. *To strengthen environmental protection and management planning, the Government has regulated environmental inventory, ecoregion determination, and the preparation and use of RPPLH as a basis for development planning, through Government Regulation No. 26/2025, dated June 5, 2025.*

- a) **Rationale:** Land conversion, watershed degradation, pollution, coastal erosion, biodiversity loss, and unsustainable resource use are compromising ecosystem functions, while climate change intensifies flooding, drought, erosion, and salinity intrusion. RPPLH provides a long-term instrument for integrating carrying capacity, assimilative capacity, environmental quality, and climate risk into development decisions. Uneven preparation and use, however, have limited its influence on spatial and sector planning, licensing, infrastructure siting, and investment prioritization.
- b) **Significance of SP1 Prior Action:** Regulation No. 26/2025 strengthens RPPLH as a mandatory long-term planning instrument and clarifies its use in development decisions. RPPLH identifies environmental conditions, carrying and assimilative capacity, natural-resource use, environmental quality, ecosystem-protection needs, and adaptation and mitigation priorities. It can therefore guide where development should be limited, where ecosystems should be protected or restored, and where infrastructure should be designed to reduce pressure on environmental systems.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt an operational module for RPPLH evaluation. Evaluations, required at least every five years, use monitoring results, updated inventories, and key performance indicators to assess implementation and integration into development, spatial, sectoral, and ecosystem-specific plans. The module would help eligible provinces identify follow-up actions and apply findings to sector programs, planning, and screening of public and private investments affecting environmental capacity, ecosystem services, and climate resilience.
- d) **Expected Results:** The CPBF result is the number of provinces completing RPPLH evaluations using the operational module. The baseline is 0, and the target is five provinces by 2029.³⁵ The evaluations should strengthen the use of environmental capacity, ecosystem information, and climate risk in planning, licensing, budgeting, and investment screening. Reduced pressure on critical ecosystems will depend on implementation and enforcement, updated data, institutional coordination, and follow-up investment.

³⁵ Based on information provided by the Ministry during Program preparation, 18 provinces had prepared RPPLH before issuance of the new regulation. The target of five provinces represents an initial cohort for application of the new evaluation module, prioritizing provinces whose RPPLH are due for evaluation and that face greater capacity constraints.

- e) **Analytical Underpinning:** WB Indonesia's CCDD, OECD work on green growth and infrastructure adaptation, and AIIB's *Nature as Infrastructure* support integrating carrying capacity, ecosystem services, and climate risk into planning and investment.

2.28. Prior Action 2.3. *To operationalize incentive-based environmental economic instruments for maintaining and improving the quality of environmental services, the Government has established the regulatory framework for the development of Payment for Environmental Services systems, including performance-based cooperation agreements between environmental service providers and users, through Minister of Environment/Head of Environmental Control Agency (BPLH) Regulation No. 2/2025, dated April 14, 2025.*

- a) **Rationale:** Ecosystem protection and restoration generate water-regulation, erosion-control, biodiversity, carbon-storage, and climate-resilience benefits. However, financing and compensation arrangements remain fragmented, project-based, and inconsistently structured, making it difficult to define providers, beneficiaries, eligible activities, compensation, fund flows, monitoring, and remedies for non-performance.
- b) **Significance of SP1 Prior Action:** Regulation No. 2/2025 establishes the operational basis for Payment for Ecosystem Services (PJLH) policy, institutional facilitation, conflict resolution, monitoring and evaluation, and financing. It provides a clearer structure for transactions between environmental-service providers and beneficiaries or payers and for financing watershed protection, landscape restoration, biodiversity conservation, and community-based natural-resource management.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt technical guidelines to support the development of PJLH-compliant cooperation agreements. This will help standardize existing environmental service financing or compensation arrangements into formal PJLH transactions. The guidelines would provide a clearer structure for defining eligible environmental services, the parties involved, provider and beneficiary roles, compensation or financing arrangements, fund utilization, monitoring, reporting, evaluation, and dispute-resolution provisions.
- d) **Expected Results:** The CPBF result is the number of signed PJLH cooperation agreements financing or supporting ecosystem protection, restoration, or sustainable management. The baseline is 20 compliant agreements, and the target is 50 by 2029.³⁶ Wider use of standardized agreements should improve transaction credibility and expand non-budget financing and stewardship incentives. This will require continued facilitation, clear service and beneficiary definitions, transparent fund flows and benefit sharing, effective monitoring, and access to suitable financing.
- e) **Analytical Underpinning:** WB Indonesia's CCDD, AIIB nature-finance work, and OECD green-growth analysis identify the need for clearer incentive, financing, monitoring, and benefit-sharing arrangements for ecosystem services.

Reform Area 3: Resilient Local Service Delivery

³⁶ The baseline of 20 signed PJLH cooperation agreements is based on Ministry records. The additional target of 30 agreements reflects the Ministry's initial screening of existing environmental-service financing and compensation arrangements that could be formalized or adjusted into PJLH-compliant cooperation agreements following adoption of the SP2 technical guidelines.

2.29. The Program supports Reform Area 3 through three SP1 PAs that strengthen the financing, data, coordination, and planning foundations for climate-resilient local infrastructure and services. The three Prior Actions under this Reform Area focus on subnational infrastructure financing, integrated solid waste management, and integrated water supply and sanitation planning.

2.30. Prior Action 3.1. *To expand financing options for subnational infrastructure and public service investments, the Government has established a framework for subnational lending sourced from banks and non-bank financial institutions, through Ministry of Finance Regulation No. 11/2026, dated March 4, 2026.*

- a) **Rationale:** Climate change is increasing pressure on local infrastructure and public services. However, fiscal space at the subnational level remains constrained, while many climate-resilience investments may not generate sufficient direct financial returns, even though they deliver significant avoided losses, service continuity, public health, environmental, Regional Government Budget (APBD) savings, and socio-economic benefits. Expanding access to financing instruments that can recognize these benefits is therefore important to support adaptation-relevant infrastructure and public service investments.
- b) **Significance of SP1 Prior Action:** Regulation No. 11/2026 operationalizes regional debt-financing provisions under Government Regulation No. 1/2024. It creates a clearer channel for eligible local infrastructure and service investments through banks and non-bank financial institutions and allows justification based on APBD savings and/or socioeconomic benefits, not only direct revenue. This provides an entry point for adaptation investments that demonstrate avoided losses, service continuity, public-health benefits, environmental improvements, or resilience gains.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to issue technical guidance to support local governments in identifying and developing climate-adaptation-relevant subnational investments from initial concepts into lending proposals under Minister of Finance Regulation No. 11/2026. This would provide a structured approach for local governments to document adaptation relevance, eligibility, affordability, expected APBD savings and/or socio-economic benefits, resilience gains, fiscal implications, and project readiness in a more consistent manner, while recognizing that formal appraisal, approval, budgeting, borrowing authorization, and financing decisions remain subject to applicable government procedures and the requirements of banks and non-bank financial institutions.
- d) **Expected Results:** The CPBF result is the number of climate-adaptation-relevant investment concepts identified by local governments. The baseline is 0, and the target is 10 by 2029.³⁷ This will create an initial pipeline for further preparation and possible financing. Financing and delivery will require project preparation, appraisal, approval, and compliance with fiscal, safeguard, technical, and readiness criteria. Loan approval or financial close is not required during the Program period.
- e) **Analytical Underpinning:** WB Indonesia's CCDD, Indonesia Public Expenditure Review, OECD infrastructure-adaptation work, and UNDRR adaptation-finance guidance support

³⁷ The target of 10 climate-adaptation-relevant investment concepts assumes that the diagnostics and investment-planning processes supported under the solid-waste (PA 3.2) and drinking-water (PA 3.3) reforms will generate an initial pool of local infrastructure priorities. Selected investment needs identified by participating cities and districts under PA 3.2 and PA 3.3 would be screened and developed using the guidance under PA 3.1.

combining subnational financing channels with guidance for identifying and preparing adaptation investments.

2.31. Prior Action 3.2. *To improve national coordination and standardize the data basis for integrated upstream-to-downstream solid waste management, the Government has: (i) established the National Strategic Coordination Team for the Integrated Upstream-to-Downstream Waste Management Reform Program, through Bappenas Decree No. KEP.111/M.PPN/HK/12/2025, dated Dec. 24, 2025; and (ii) adopted standardized methods for measuring municipal waste generation and composition, through SNI 3964:2025.*

- a) **Rationale:** Solid-waste services remain fragmented, local performance varies, and data are often inadequate for planning and investment. Stronger coordination and standardized measurement are needed to identify service gaps, assess institutional readiness, size infrastructure, estimate methane-reduction potential, compare performance, and prepare credible investment pipelines.
- b) **Significance of SP1 Prior Action:** The Bappenas decree establishes a national platform for coordinating policy, planning, institutional and regulatory reform, financing, project readiness, and performance monitoring, including through the Solid Waste Management Performance Index (IKPS). The adoption of SNI 3964:2025 complements this coordination reform by providing a standardized method for measuring municipal waste generation and composition. These reforms strengthen the basis for local governments to generate more reliable waste data, compare service performance, identify priority service gaps, and plan interventions to improve service delivery.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt an end-to-end framework for integrated upstream-to-downstream solid-waste management. The framework would combine SNI-based measurement, Waste Management Ladder service classification, and IKPS performance assessment to diagnose services and identify priority improvements and investments, including methane-reduction and circular-economy measures. It would also clarify institutional arrangements, financing options, third-party participation, and requirements for feasibility studies linking proposed investments to service needs, cost recovery, financing, and climate outcomes.
- d) **Expected Results:** The CPBF result is the number of local governments using Waste Management Ladder-based IKPS to assess service performance and identify priority improvements and investments. The baseline is 0, and the target is 10 by 2029, based on locations supported by AIIB's SWM-SUD project.³⁸ The framework should improve diagnostics and prioritization. Better service performance and methane reduction will require funded investment plans, institutional and operational improvements, and downstream infrastructure.
- e) **Analytical Underpinning:** Bappenas/ Low Carbon Development Indonesia (LCDI) waste-data work, the Bappenas/GIZ National Waste Management Reform, the WB plastic-leakage report, and *What a Waste 2.0* identify unreliable data, fragmented institutions, inoptimal planning, financing gaps, and performance gaps as core constraints.

³⁸ The target of 10 local governments aligns with the initial locations identified under the AIIB-financed Solid Waste Management for Sustainable Urban Development Project: Temanggung, Rembang, Tasikmalaya, Jepara, Banyuwangi, the Aceh regional system, Cirebon, Gunungkidul, Tabalong, and the Magelang regional system

2.32. Prior Action 3.3. *To set the national framework for safe, sustainable, and disaster- and climate-resilient drinking water supply, the Government has adopted the National Policy and Strategy for the Implementation of Drinking Water Supply Systems (Jakstranas SPAM) for 2026–2030, through Ministry of Public Works Regulation No. 6/2026, dated March 13, 2026.*

- a) **Rationale:** Drinking-water services face gaps in access, reliability, utility performance, institutional capacity, and investment readiness. Climate change increases raw-water uncertainty, drought and flood risk, sedimentation, water-quality problems, asset damage, service disruptions, and operating costs. Risk-informed planning is therefore needed to align service expansion with source reliability, climate and disaster exposure, utility readiness, and financing needs.
- b) **Significance of SP1 Prior Action:** Ministry of Public Works Regulation No. 6/2026 establishes Jakstranas SPAM 2026–2030 as the national five-year framework for expanding safe access, improving service quality, strengthening governance and financing, and promoting integrated and sustainable delivery. It also requires disaster and climate risks to be considered in local drinking-water master plans and water-safety plans, providing a basis for SP2.
- c) **Significance of Indicative SP2 Prior Action:** Under SP2, the Government is expected to adopt a framework for climate-resilient SPAM planning. The framework would support local governments and service providers in incorporating disaster and climate-risk considerations into RISPAM and related SPAM planning documents, including raw water reliability, source vulnerability, service gaps, utility readiness, priority interventions, investment needs, and financing options.
- d) **Expected Results:** The CPBF result is the number of districts or cities incorporating disaster and climate risks into RISPAM or related SPAM plans using the adopted framework. The baseline is 0, and the target is 10 by 2029.³⁹ Application should improve alignment among raw-water reliability, service priorities, utility readiness, and investment preparation. More reliable services and fewer disruptions will require financing and implementation, coordination with raw-water planning, adequate utility and O&M capacity, and infrastructure investment.
- e) **Analytical Underpinning:** WB Indonesia's CCDR, WB–ADB Climate Risk Country Profile, ADB Indonesia Country Water Assessment, WB utility-resilience work, and OECD water-financing analysis support integrating climate risk, raw-water reliability, service continuity, and financing into SPAM planning.

2.33. Theory of Change. The Program's theory of change is presented in Annex 7. It illustrates the expected progression from the policy and institutional reforms supported under SP1 and indicative SP2 reforms to short-term institutional results and, ultimately, medium- and longer-term climate-resilience outcomes. While the link between the reforms and short-term results is relatively direct, the transition from short-term institutional results to medium- and long-term climate-resilience outcomes will depend on sustained budget allocations, effective cross-ministerial coordination, national and subnational implementation capacity, uptake by frontline institutions, complementary technical assistance, and the availability of financing for identified

³⁹ The target of 10 cities and districts represents an initial cohort drawn from the 10 metropolitan regions prioritized under the RPJMN 2025–2029.

priorities. These factors remain important implementation assumptions and residual risks. Addressing these risks will require continued Government implementation and, where appropriate, complementary technical assistance and follow-on financing instruments, including investment financing or results-based operations.

2.34. Development Financing Needs and Budget Support. Indonesia faces substantial development and climate financing needs that cannot be met through public resources alone. The RPJMN 2025–2029 estimates medium-term infrastructure investment needs of IDR1,905.3 trillion, with public financing expected to cover about 60% and a residual financing gap of approximately IDR753 trillion. Climate financing needs are also significant: Indonesia’s Second Nationally Determined Contribution estimates investment requirements of about USD472.6 billion through 2035 to implement NDC commitments across energy, IPPU, waste, agriculture, and Forest and Other Land Use (FOLU).

2.35. The proposed CPBF provides general budget support to help meet Indonesia’s development financing needs while supporting a focused package of policy and institutional reforms. The CPBF amount is justified by the scale of Indonesia’s financing requirements, the scope and ambition of the supported reform program, the Government’s request for policy-based support, Indonesia’s track record with policy-based financing, and the adequacy of the macroeconomic policy framework and debt sustainability outlook. The Program does not price individual reforms or earmark loan proceeds to specific expenditures. Rather, the financing supports the Government’s budget while the policy matrix focuses on reforms that can improve the efficiency, targeting, and climate responsiveness of public expenditure and help create the enabling conditions to catalyze additional public, development partner, blended, and private financing over time.

Consultations and Collaboration with Development Partners and Stakeholders.

2.36. Consultation with Stakeholders. The Program has been prepared through Government-led consultations coordinated by Bappenas and the responsible line ministries, supplemented by AIIB technical consultations, bilateral meetings, focus group discussions, and selected site visits. These consultations focused on implementation readiness, legal feasibility, institutional mandates, budget and financing pathways, data availability, results tracking, environmental and social risks, and subnational implementation constraints. The process has involved national ministries, subnational governments, service providers, technical agencies, community-level actors, and development partners relevant to the prior actions.

2.37. The consultations have directly informed the design of the Program and the proposed sequencing from SP1 to SP2. For agricultural extension, consultations confirmed that certification-based targets are unlikely to be feasible within the SP2 timeframe, and that the reform should focus on formally adopted national training modules and practical rollout through the extension system. For irrigation, consultations confirmed that SP1 establishes the institutional mandate for tertiary irrigation O&M, but that climate-smart O&M guidance, asset handover, and climate-data integration remain critical implementation gaps. For the Village Fund, consultations confirmed that IRID has been embedded in the Village Fund allocation formula, but that operational guidance

and verification through village financial systems are needed before climate-responsive village expenditure can be reliably tracked. For mangroves and RPPLH, consultations and site visits confirmed that national regulations create strong mandates, but local implementation depends on practical guidelines, content-quality checks, and capacity support. For subnational lending, consultations confirmed that climate adaptation investments are eligible in principle under Ministry of Finance Regulation (PMK) 11/2026, but that local governments and financing institutions need a practical method to define, screen, and quantify adaptation benefits. For solid waste management, consultations confirmed that the national coordination team and waste-data standard need to be translated into an end-to-end framework that links data, performance assessment, local planning, feasibility studies, financing options, and investment readiness.

2.38. Stakeholder engagement will continue during SP1 implementation and SP2 preparation. Particular attention will be given to stakeholders directly affected by or involved in reform implementation, including village governments and communities, women and vulnerable groups, customary and forest-dependent communities, coastal communities, informal waste workers, local governments, water and sanitation service providers, utilities, farmer groups, water-user associations, and community-based forestry enterprises. Consultation outcomes will inform the finalization of SP2 indicative prior actions, implementation guidance, results indicators, verification arrangements, and environmental and social risk management measures.

Collaboration with the IMF, Other AIIB Operations, and Development Partners.

2.39. **Collaboration with the IMF.** During the preparation of the operation, discussions with the IMF focused on Indonesia's macroeconomic situation, policies, outlook and debt sustainability. This included short term considerations, such as the impact of the Middle East situation, medium term, such as the need to maintain prudent and credible policies, and long-term, including growth prospects. The IMF team provided an assessment, which supports the determination of the adequacy of the macroeconomic framework.

2.40. **Coordination with Other AIIB Operations.** The Project team will coordinate with AIIB's Green Transition and Climate-Resilient Economic Development Program team through regular information exchange and, where appropriate, joint engagement with relevant government counterparts. Coordination will focus on maintaining consistency in related policy reforms, sequencing analytical and technical support, clarifying the respective scope of the two operations, and avoiding duplication. Particular attention will be given to coastal-resilience reforms, especially the linkages between the North Java coastal-protection reforms supported under the Green Transition Program and the broader mangrove-protection reforms supported under this Program, as well as, where relevant, related environmental-planning and ecosystem-service-financing reforms. The teams will also coordinate relevant missions, policy dialogue, implementation updates, and discussions on potential downstream investments. The Program will similarly coordinate with the AIIB-financed Solid Waste Management for Sustainable Urban Development Project to align implementation of the solid-waste reforms with project-supported institutional strengthening, standardized waste measurement, performance assessment, and service-improvement planning.

2.41. Coordination with KfW and AFD. Given their interest in supporting the programmatic series with financing and technical assistance, AIIB will maintain close coordination with KfW and AFD throughout Program preparation and implementation. Coordination may include: (i) regular exchanges on reform progress, implementation constraints, and proposed follow-up support; (ii) mapping and sequencing of technical assistance, including its scope, expected outputs, responsible institutions, and timing, to address implementation needs and avoid duplication; (iii) coordination of missions, meetings, and engagement with Government counterparts, where appropriate; and (iv) alignment of information and reporting requests, drawing as far as possible on the Government's existing monitoring arrangements and reports prepared through the Bappenas-led Technical Working Group. The institutions may also share relevant analytical findings and implementation updates, subject to their respective policies and procedures. Each institution will retain responsibility for its own appraisal, approval, legal documentation, administration, monitoring, and disbursement decisions.

2.42. Coordination with Other Development Partners. AIIB has maintained dialogue with GGGI, UNDP, IFAD, UNDRR, ADB, the WB, DFAT, and other relevant partners to identify complementarities and clarify respective areas of engagement. During implementation, coordination will include periodic exchanges on reform progress and ongoing partner support; mapping of relevant technical assistance through the Bappenas-led Technical Working Group; and, where appropriate, coordination of missions, analytical activities, Government consultations, and implementation updates. This approach will help identify gaps, avoid overlapping assistance and reporting requests, and align partner support with the sequencing and implementation needs of the reform program.

Implementation Arrangements

2.43. Bappenas, through its Deputy for Food Affairs, Natural Resources, and Environment, will execute the Program. Line ministries and agencies will retain technical leadership and implementation responsibility for reforms within their mandates. The Ministry of Agriculture, Ministry of Villages and Development of Disadvantaged Regions, and Ministry of Forestry will lead relevant actions under Reform Area 1. The Ministry of Environment will lead relevant actions under Reform Area 2. The MoF, Ministry of Public Works, and Bappenas will lead relevant actions under Reform Area 3. Cross-cutting institutions will participate where relevant, including the Ministry of Home Affairs, PT SMI, BPD LH, and BMKG.

2.44. The TWG, supported by three reform-area sub-working groups, will coordinate preparation and implementation of the SP2 reforms. For each SP2 Indicative Prior Action, the responsible implementing agency will lead the technical work, while the relevant sub-working group will coordinate inputs from supporting institutions, review the proposed regulatory and implementation approach, identify budget and technical-assistance needs, resolve inter-agency dependencies, and monitor adoption and initial rollout. For example, under PA 1.1, BPPSDMP will lead preparation and rollout of the climate-smart agriculture training modules, while the relevant sub-working group will coordinate inputs from other Ministry of Agriculture units, BMKG, training centers, and subnational agriculture agencies and review the proposed training, financing, targeting, and monitoring arrangements.

2.45. Each implementing agency will designate a policy focal point to coordinate reform preparation, adoption, and issue resolution and a technical/data focal point to maintain evidence, validate results data, and support reporting. The TWG Secretariat will consolidate implementation progress, track agreed actions and unresolved issues, and compile evidence for review by the TWG and submission by Bappenas to AIIB. AIIB will review progress against the Policy and Results Matrix and support implementation through policy dialogue, technical review, analytical work, development-partner coordination, and evidence review. The SP2 Indicative Prior Actions may be refined to reflect further technical work, consultation findings, legal feasibility, institutional readiness, budget processes, data availability, and alignment with the results framework, subject to applicable government and AIIB procedures. Government agencies will remain responsible for resourcing and implementing the reforms.

2.46. **Sustainability.** The sustainability of the Program is supported through four mutually reinforcing dimensions, as follows:

- a) *Government ownership.* The Program is built on a government-owned reform agenda and supports reforms that have been identified, adopted, and are being implemented by the Government as part of its long-term development and climate agenda. The supported reforms are firmly anchored in Indonesia's national policy framework, including the RPJMN, SNDC, NAP, and LTS-LCCR, and build on regulations, mandates, and government programs already initiated by the Government. This strong ownership, together with the integration of the reforms into existing institutions and planning processes, provides a solid basis for sustaining implementation beyond the Program period.
- b) *Institutionalization and durability of reforms.* The SP1 reforms are established through different legal and administrative instruments. Some are embedded in standing Government or ministerial regulations, while others rely on Presidential Instructions or administrative instruments that require further operationalization. The durability of these reforms therefore depends not only on the legal form of the SP1 instruments, but also on clear mandates, supporting instruments, integration into planning and budgeting, and uptake by responsible institutions. SP2 will strengthen these foundations through legally effective instruments, operational standards, implementation and monitoring arrangements, and use of existing Government systems. The regulatory pathway for each indicative SP2 reform will be determined by its substance, responsible authority, intended legal effect, and the institutions expected to apply it.
- c) *Implementation capacity and operational sustainability.* The reforms will be implemented through existing government planning, budgeting, fiscal transfer, environmental management, and public financial management systems rather than parallel implementation arrangements. Where relevant, implementation will be integrated into national and ministerial work plans, local government planning and budgeting processes, Village Funds, subnational lending mechanisms, environmental finance instruments, Climate Budget Tagging, AKSARA, and the National Registry System for Climate Change Control. This integration strengthens institutional capacity and supports the continued implementation of reforms beyond the CPBF period. Sustained implementation will also

depend on effective coordination across ministries, adequate national and subnational capacity, uptake by frontline institutions, and access to appropriate technical support. The Bappenas-led Technical Working Group, reform-area sub-working groups, and designated institutional focal points will support coordination, monitor implementation progress and constraints, and help identify capacity and technical-assistance needs.

- d) *Sustainable financing and downstream investment pathways*. The Program creates enabling conditions for downstream climate-resilient investments beyond the CPBF period. While it does not finance these investments directly, it addresses policy, institutional, planning, and financing constraints that limit the identification, preparation, financing, and implementation of climate-resilient investments. The Program also strengthens the institutional foundations for implementing the supported reforms by improving the systems needed to define, measure, monitor, and verify climate-resilient results. Subject to separate preparation and approval, future results-based operations could link financing to verified implementation progress or service outcomes, while investment financing could support infrastructure, project preparation, institutional systems, capacity building, and other inputs needed to implement the reforms. The appropriate instrument and sequencing would depend on the maturity of the reforms, implementation needs, institutional capacity, and readiness of the related downstream investments. Illustrative pathways from selected CPBF-supported reforms to potential results-based and investment financing, are presented in Annex 8.

3. Program Appraisal

A. Macroeconomic Outlook and Adequacy of the Macroeconomic Policy Framework

3.1. **Background and Recent Economic Developments.** Indonesia is an upper middle-income economy with a GDP per capita of around USD5,400 and a population of around 280 million. Indonesia's economic resilience is rooted in over two decades of prudent macroeconomic management, contributing to robust growth, poverty reduction, and economic inclusion.

3.2. Indonesia's economy remained strong in recent years, growing at around 5.0%, despite a challenging global environment. Growth has been driven primarily by domestic demand, supported by public consumption and investment, while private consumption remained resilient. Weaker external demand and softer commodity prices weighed on exports. Inflation has declined from its 2022 peak of 6% to zero in early 2025, but has increased since, to 3.3% as of June 2026. Inflation expectations remain well anchored.

3.3. The fiscal deficit continued to widen from 1.6% in 2023 to 2.3% in 2024 and 2.8% in 2025 driven by social spending and support measures to sustain growth. Revenue performance in 2025 was constrained by lower commodity-related revenues, accelerated tax refunds, and retained dividends from state-owned enterprises. More generally, fiscal policy has so far been prudent, guided by well-calibrated fiscal rules. Public debt is at around 42% of GDP, stable and well below the statutory ceiling.

3.4. The current account has been small and manageable, below 1% of GDP, despite lower export receipts amid weaker global demand and continued strength in imports supported by domestic activity. The external debt is low and stable, at around 30% of GDP. Foreign reserves, at USD 145 billion, as of June 2026 and equivalent to around 5 months of imports, are adequate, per IMF metrics.

3.5. The exchange rate and country's credit ratings have been under pressure recently, amid increased investor scrutiny of Indonesia's fiscal policy outlook plans for higher spending, capital market governance and increasing centralization of economic policymaking. Additionally, the situation in the Middle East has complicated the outlook, with higher spending on energy imports and fuel subsidies, and potential for capital outflows due to risk aversion. These developments have put pressure on the balance of payment and led to concerns about potential breaches to the budget deficit ceiling, which is an important element of Indonesia's fiscal framework and a key anchor for market confidence. The authorities have taken some austerity measures to contain fiscal deterioration, emphasized their commitment to adhering to fiscal rules and maintaining macroeconomic stability. The central bank has intervened in the Foreign Exchange (FX) market and increased policy rates by 100bps to maintain the rupiah's stability.

Table 1. Selected Economic Indicators, 2023–2029

Selected economic indicators	2023	2024	2025	2026*	2027*	2028*	2029*
GDP growth 1/	5.0	5.0	5.1	5.0	5.1	5.2	5.2
Inflation (e.o.p) 1/	2.8	1.6	2.9	2.7	2.5	2.5	2.5

Fiscal balance 2/	-1.6	-2.3	-2.9	-2.9	-2.9	-2.9	-2.9
Public debt 2/	39.6	40.2	41.0	41.8	41.6	42.0	42.1
Public gross financing needs 2/	4.6	5.5	6.5	6.4	6.0	5.5	5.9
Current account balance	-0.1	-0.6	-0.1	-0.9	-0.7	-0.8	-0.8
External debt	29.8	30.5	29.9	29.7	29.0	28.7	28.8
FX reserves (USD billion) 3/	146.4	155.7	156.5	145.6	..	..	..
Exchange rate (IDR/USD, e.o.p.)	15,395	16,090	16,670	17,988	..	..	..

Source: IMF WEO Apr 2026, report 26/10, IMF assessment letter; in % of GDP, unless indicated otherwise; *=projections; e.o.p.=end-of-period

Notes: 1/ percent change year-on-year; 2/ general government; 3/ most recent data from central bank, as of Jul 7, 2026;

3.6. Macroeconomic Outlook. Growth is projected to remain steady at around 5.0% in 2026 and beyond, despite heightened global uncertainty and geopolitical tensions, and expected to continue to be driven by domestic demand, supported by relatively accommodative monetary policy and pro-growth fiscal spending. However, recent developments in the Middle East pose significant downside risks, particularly if high energy prices are combined with a risk-off event.

3.7. The fiscal stance is expected to remain pro-growth and pro-social, reflecting the new administration's priorities, including the free nutritious meal program, school infrastructure upgrades, and enhanced food security measures. This is expected to widen the fiscal deficit to at least 2.9% of GDP in 2026. Indonesia's longstanding fuel subsidy policy cushions the impact of shocks but remains a source of fiscal vulnerability. Particularly in the context of elevated oil price volatility, higher subsidy spending can widen the fiscal deficit and reduce budget space.

3.8. The current account deficit is projected to remain manageable, at around 1% of GDP, over the medium term. Domestic demand is expected to support imports, while exports may remain subdued by weaker global demand and escalating trade tensions.

3.9. Debt Sustainability and Sovereign Credit. According to the IMF, Indonesia is at a low overall risk of sovereign stress and public debt, projected to remain stable at around 42%, is sustainable. Public financing needs are manageable. Risks are related to geopolitical and trade tensions, and domestic policy shifts. Indonesia is an investment grade economy, rated BBB/Baa2. That said, recent concerns about perceived deterioration in predictability of policymaking have led, in early 2026, to a revision of the rating outlook to negative by Moody's and Fitch.

3.10. Adequacy of the Macroeconomic Policy Framework. The Bank's assessment indicates that Indonesia's macroeconomic policy framework is adequate for this operation. For the past two decades, prudent macroeconomic policies have enabled strong growth and poverty reduction. The economy has proved resilient to shocks. Within the generally stable political and macroeconomic environment, growth is projected to continue at around 5% in the medium term. Since the early 2000s, fiscal policy has been guided by a well-calibrated fiscal rule, consisting of a 3%-of-GDP ceiling on the fiscal deficit and a 60%-of-GDP cap on public debt, which is being implemented resolutely.

3.11. With fiscal space, the authorities are also able to act countercyclically. Breaches of the deficit ceiling are allowed, under specific, temporary, and emergency circumstances. Following a countercyclical fiscal expansion in 2021-22 (the covid pandemic) deficits swiftly returned below the ceiling by 2023. Debt and sovereign stress risks remain low.

3.12. Monetary policy follows inflation targeting, with a target range of 2.5 ± 1 ppt. The policy has been credible and effective. Disinflation from the post-pandemic surge in inflation has been quick and smooth. Inflation currently is, and is in principle expected to remain, within the target, barring temporary deviations due to external shocks. The central bank has demonstrated it can act decisively, if needed. The banking sector is sound, with strong capital and liquidity. External position is stable, and a floating exchange rate helps cushion shocks. The current account is low and manageable, while FX reserves are adequate (around 30% above IMF-recommended minimum levels).

3.13. The authorities remain committed to continuing prudent policies. Policy credibility is reflected in Indonesia's investment grade sovereign credit rating, consistently maintained for the past two decades, and the generally low spreads on bonds.

3.14. **IMF and WB views.** The Fund has provided an Assessment Letter to AIIB in July 2026. According to the IMF, Indonesia's growth has been broadly resilient in the face of adverse shocks and the challenging global environment but faces rising external pressures from the Middle East situation. The impact so far, while negative, has been manageable. Barring an escalation, growth is expected to remain steady at 5.1% in 2026, reflecting support from fiscal policies. The central bank has appropriately moved to preempt inflation pressures. FX reserves are adequate and debt sustainable with low risk. At the same time, the IMF calls for a calibrated policy to safeguard hard-earned policy credibility, ensure adherence to fiscal rules, and carefully manage quasi-fiscal activities. In this regard, authorities' announced commitment to staying within the fiscal guardrails is welcome.

3.15. According to WB, as of 2025, Indonesia's macroeconomic policy framework was adequate, characterized by prudent macro policies which have supported resilient economic growth within a stable macroeconomic environment. The authorities are implementing social programs while maintaining sustainability, partly through a re-allocation of spending. Monetary policy aims at price and exchange rate stability within a coherent framework. Indonesia's sound macro policy mix has preserved policy space and kept government financing costs low. Liquidity buffers are adequate and public debt is sustainable.

B. Institutional Capacity

3.16. AIIB's institutional capacity assessment is based on its own due diligence during Program preparation, including review of the policy matrix, consultations with Bappenas, MoF, and implementing ministries, review of relevant planning and monitoring systems, and coordination with development partners active in the relevant sectors. The assessment finds that Bappenas has the institutional mandate and convening capacity to execute the Program, given its role in national development planning, coordination of RPJMN implementation, preparation and synchronization of the Government Work Plan (RKP), with the national budget process, and monitoring of low-carbon and climate-resilient development through AKSARA.

3.17. Indonesia's climate policy agenda is supported by a whole-of-government institutional framework and embedded in the national development planning system. Bappenas leads national

development planning and supports the mainstreaming of climate priorities into the RPJMN, RKP, and related planning and monitoring instruments. MoF supports alignment with fiscal policy, the national budget process, climate budget tagging, and public finance instruments. The Ministry of Environment / Environmental Control Agency, or KLH/BPLH, serves as Indonesia's National Focal Point for the United Nations Framework Convention on Climate Change (UNFCCC) and plays a central role in climate policy coordination, NDC and NAP processes, climate reporting, greenhouse gas inventory and MRV systems, the national registry system, carbon economic value governance, and environmental management functions relevant to the Program.

3.18. Line ministries have the technical mandate and sectoral capacity to implement reforms within their respective areas. The MoA, MoV, MoFor, MoE, MoF, MPW, and Bappenas each lead reforms that are anchored in existing laws, regulations, planning instruments, or institutional mandates. Provincial and local governments are involved where reforms require subnational planning, service delivery, or local implementation. The Program therefore builds on existing institutional responsibilities rather than creating a parallel implementation structure.

3.19. The Program applies a targeted approach within Indonesia's broader climate policy framework by focusing on selected reforms related to Climate-Adaptive Rural Economy, Ecosystem-Based Climate Resilience, and resilient local service delivery. This approach is appropriate because the selected reforms are linked to RPJMN, SNDC, and NAP priorities, have identifiable institutional owners, and can be sequenced through the programmatic series. The main institutional capacity risks relate to coordination across multiple agencies, uneven data availability across ministries, and different levels of readiness for indicative SP2 policy actions. These risks are mitigated through the Bappenas-led TWG, nomination of policy and technical/data focal points, use of existing government planning and monitoring systems, and AIIB's continued policy dialogue and evidence verification during implementation. No material institutional integrity or anticorruption issue has been identified beyond the governance and fiduciary risks addressed in the relevant sections of this Program Document.

C. Public Financial Management and Disbursement

3.20. **Public Financial Management (PFM).** Indonesia's public financial management system is governed by a comprehensive legal and institutional framework and from the review on available information from Public Expenditure and Financial Accountability (PEFA), PEFA Climate, and other relevant document is assessed as adequate to support policy-based and budget-linked operations. Budget formulation and execution are disciplined, supported by a centralized treasury framework and increasingly integrated digital systems that enhance fiscal reporting, control, and oversight (including SPAN and SAKTI). While the latest PEFA assessment dates to 2017, recent reforms have focused on strengthening performance orientation and improving the linkages between planning, budgeting, and results. Government Regulation No. 6 of 2023, supported by MoF Regulation No. 62 of 2023, reinforced performance-based budgeting and simplified program structures across ministries. Core budget information continues to be publicly disclosed by the MoF.

3.21. Indonesia's Supreme Audit Institution, Badan Pemeriksa Keuangan (BPK), conducts timely audits of the central government financial statements (LKPP). The LKPP received unqualified (WTP) audit opinions for FY2024, continuing a multi-year track record of clean opinions. Audit findings and reports are publicly disclosed, providing reasonable assurance on the reliability of government financial reporting.

3.22. Public Procurement is regulated under Presidential Regulation No. 16/2018, as amended, which strengthened procurement planning, transparency, competition, use of e-procurement, SME participation, and sustainable procurement practices. Mandatory use of the national e-procurement system across central and subnational governments has improved transparency and efficiency. Indonesia's first comprehensive MAPS assessment was completed and published in 2024, led by LKPP with support from development partners. Implementation of key MAPS recommendations is ongoing, including sustainable procurement guidelines, development of integrated procurement platforms, and establishment of procurement performance indicators, although system-wide performance monitoring remains under development.

3.23. Central Bank of Indonesia (BI) is legally mandated to manage foreign exchange operations and international reserves. The foreign exchange control framework is supported by a sound legal and regulatory environment, prudent reserve management practices, and well-established treasury and settlement systems. Recent regulatory updates have further aligned foreign exchange arrangements with international standards. The IMF's 2024 Article IV Consultation assessed Indonesia's macroeconomic and financial system as resilient and well capitalized, with prudent fiscal and monetary frameworks, while recommending continued strengthening of supervisory and crisis management arrangements. BI's financial statements have continued to receive unqualified audit opinions from BPK, including for FY2024, and past government policy-based operations from other MDBs have been successfully disbursed through BI-managed accounts in recent years. Based on the assessment of PFM systems, treasury controls, and foreign exchange arrangements, fiduciary risk is assessed as Moderate, and no project-specific audit is required for CPBF-type operations.

3.24. **Disbursements.** AIIB financing will follow standard policy-based disbursement procedures. Loan proceeds will be credited to a foreign currency account of the Borrower at Bank Indonesia, with the Rupiah equivalent transferred to the General Treasury account in accordance with prevailing treasury arrangements. The Borrower will provide the Bank with written confirmation that this transfer has been completed and provide any other pertinent information, including the exchange rate used for the conversion from USD to IDR. Such confirmation will be furnished to the Bank within 30 days of the deposit of the loan proceeds into account of the Government's budget management system. This confirmation receipt requirement will also be indicated in the loan agreement. Disbursements are not linked to specific expenditures or procurement and remain subject to the Bank's standard exclusion list and the applicable legal agreements.

D. Environmental and Social Aspects

3.25. AIIB's Environmental and Social Policy (ESP), and the Environmental and Social Exclusion List (ESEL), are applicable to this Program. AIIB carried out its assessment of the likely

environmental and social (ES) impacts of the Program, and no activities under the Program are expected to fall within the ESEL. The environmental and social analysis therefore focuses on whether the SP1 prior actions are likely to have significant environmental or social impacts and how the Government's ES framework manages such impacts. Annex 4 outlines the summary of potential direct and indirect impacts of each SP1 Prior Action.

3.26. The Prior Actions supported under SP1 are expected to generate positive environmental and social impacts. The reforms are institutional and regulatory in nature, focusing on strengthening climate-smart agriculture, irrigation governance, targeted fiscal transfers, sustainable forestry, mangrove protection, environmental planning, ecosystem services financing, solid waste management, and water supply governance.

3.27. No SP1 Prior Action is assessed as likely to result in significant adverse environmental or social impacts. The risks are considered manageable within Indonesia's existing legal and institutional frameworks, which include environmental assessment and permitting, and sectoral regulations. The ES Matrix identifies mitigation measures, such as strengthening standards, technical guidance, monitoring, and capacity building. The relevant ES considerations will be incorporated into the SP2 actions through the preparation of specific Terms of Reference (TORs). The TORs will be reviewed by the AIIB Project Team, as appropriate, to reflect relevant E&S considerations and align with the corresponding operational frameworks, technical standards, and implementation guidelines to be developed under SP2. The inter-ministerial technical working group (TWG), comprising the executing agencies for each reform area and Bappenas as lead, will oversee and regularly monitor the progress of preparing the SP2 actions, including the relevant operational frameworks, technical standards, and implementation guidelines, in accordance with the respective TORs. The TWG will facilitate cross-ministerial coordination, while implementing ministries will remain responsible for implementation of the PAs within their respective mandates.

3.28. **Environmental Aspects.** The likely environmental impacts of the Program are expected to be largely positive, reflecting the Program's emphasis on climate resilience, ecosystem protection, and improved environmental governance. Anticipated benefits include enhanced adoption of climate-smart agriculture, improved irrigation efficiency, strengthened mangrove protection and restoration, integration of environmental considerations and planning into subnational planning (RPPLH), targeted climate adaptation investments at the village level, strengthened social forestry, payment for ecosystem services, solid waste sector coordination, and improved water supply and sanitation governance. These reforms are designed to enhance climate resilience, promote sustainable resource management, and reduce long-term environmental risks.

3.29. Irrigation modernization (PA1.2) and agricultural reforms (PA1.1), present likely environmental risks, primarily related to water resource sustainability and potential intensification of agricultural inputs. These risks are expected to be managed through strengthening the existing regulatory frameworks on ES impact assessment and permitting systems, e.g. *Analisis Mengenai Dampak Lingkungan*, mechanisms for monitoring, and consultation, including improved ES screening, robust water sustainability analysis at the river basin-level to strengthen management of cumulative impacts, and promotion of resource-efficient practices. In addition, localized

pressures on natural resources may arise from scaling up social forestry licenses (PA 1.4); possible displacement (“leakage”) of coastal conversion pressures under strengthened mangrove protection (PA 2.1) if planning and enforcement are uneven across jurisdictions; and uneven RPPLH quality and implementation (PA 2.2) due to subnational capacity constraints; and design risks that payment for ecosystem services (PA 2.3) prioritizes easily monetized services over ecological priorities. These risks are considered manageable, as the indicative prior actions for Subprogram 2 provide entry points to strengthen climate-smart agriculture and irrigation, climate-resilient production standards, mangrove management guidelines, RPPLH monitoring and quality assurance, ecosystem services valuation, village climate-risk integration, technical guidance, capacity building, and implementation oversight.

3.30. The ES analysis did not identify any significant issues in the Government’s systems that would prevent the management of the likely environmental risks at the policy level. Where capacity gaps or implementation risks exist, such as in planning, water allocation, or social forestry governance, the ES Matrix recommends mitigation measures, including strengthened technical guidance, capacity building, participatory planning, and enhanced monitoring and enforcement. The key areas for strengthening the PA reforms include: (i) integrating water sustainability, cumulative impact assessment, and climate risk considerations into irrigation O&M frameworks; (ii) incorporating integrated pest management, safe agrochemical use, and resource-efficient agriculture into extension competency standards; (iii) embedding biodiversity protection and sustainable production requirements into KUPS standards and financing frameworks; (iv) strengthening mangrove management through integrated planning, leakage-risk controls, and livelihood transition measures; (v) enhancing RPPLH quality standards, monitoring, and subnational implementation capacity; and (vi) ensuring PPLH guidelines incorporate ecological prioritization, biodiversity protection, transparent benefit-sharing, and sound monitoring and verification arrangements. The relevant ES considerations will be incorporated into the SP2 actions through the preparation of specific TORs for the respective operational frameworks, technical standards, and implementation guidelines to be developed under SP2.

3.31. The operational frameworks, technical standards, and implementation guidelines to be developed under SP2 will, as appropriate, be informed by the relevant laws and regulations to address the environmental risks and impacts. These include the legal and regulatory frameworks such as sustainable water resources management (Law No. 17/2019 on Water Resources and Government Regulation No. 30/2024 on Water Resources Management), biodiversity protection (Presidential Instruction No. 5/2019 on the Termination of Granting of New Permits and Improving Governance of Primary Natural Forests and Peatlands - PIPPIB), pesticide management (Government Regulation No. 7/1973 on Supervision of the Distribution, Storage and Use of Pesticides and Minister of Agriculture Regulation No. 43/2019 on Pesticide Registration), and environmental assessment and management (Law No. 32/2009 on Environmental Protection and Management and Government Regulation No. 22/2021 on the Implementation of Environmental Protection and Management). In addition to incorporation of these laws and regulations, relevant environmental considerations will be incorporated as appropriate into the preparation of the SP2 actions through the respective TORs. These considerations include integrated coastal management and regional government capacity building to mitigate leakage risks associated with mangrove protection; sustainable forest-based value-chain criteria, community engagement,

benefit-sharing measures, RKPS/RKT planning and monitoring to manage pressures on natural resources under the Social Forestry PA.

3.32. PA 2.2 requires local governments to prepare Regional Environmental Protection and Management Plans (RPPLH). Under Government Regulation No. 26/2025, the RPPLH forms the environmental planning basis for national and subnational long-and medium-term development plans and is integrated into the Strategic Environmental Assessment (Kajian Lingkungan Hidup Strategis, KLHS). The RPPLH also incorporates environmental carrying capacity, decarbonization, climate resilience, and disaster risk reduction, providing the Government's mechanism for addressing cumulative environmental effects at the planning level.

3.33. **Social Aspects.** The PAs are expected to generate positive or neutral social effects. This assessment was substantiated during the pre-appraisal mission carried out by AIIB. No PA is assessed as likely to result in significant adverse social effects.

3.34. Under Reform Area 1, PA 1.1 on the centralization of approximately 40,000 agricultural extension workers from local to central government management is expected to improve advisory service delivery to smallholder farmers, including women farmers historically underserved by the fragmented district system. This prior action has completed the phased transfer of the extension workforce from local to central and reported complete as of January 2026, with no livelihood loss or adverse transition reported, under the employment continuity protections under Law No. 20/2023 on the State Civil Apparatus and the formal transfer mechanism administered by the National Civil Service Agency pursuant to Presidential Instruction No.3/2025.

3.35. PA 1.2 on the irrigation coordination framework is expected to improve water reliability across approximately 7.5 million hectares of irrigated agricultural land, with positive livelihood effects for rural farming households and particular benefits for women farmers concentrated in food crop production on smaller irrigated plots. PA 1.2 is a planning and coordination mandate, and social impacts associated with specific rehabilitation works will be downstream and assessed at project-level impacts.

3.36. PA 1.3 embeds Village Climate Risk Index into the *Dana Desa* allocations, providing additional funding to villages facing high climate risk through affirmative allocations. This is an equity-positive climate fiscal reform, considering that climate vulnerable villages are disproportionately home to low-income households with limited capacity to self-finance adaptation. No likely adverse social impact is attributable to the prior action. The 2026 regulation also carries several equity features such as the following: (a) village poverty levels are reflected in the allocation formula, (b) a portion of funds is redistributed from better-off villages toward the most disadvantaged ones, (c) villages decide the use of their discretionary funds through village assemblies, and (d) cash transfer program for the low-income households remain a priority use. The same regulation separately channels 58.03% of each village's allocation to the Government's flagship village cooperative program (*Koperasi Desa Merah Putih*, KDMP), a distinct initiative that is not part of the reform supported under the Program. Public views on this uniform share have been reported, which are assessed as relating to the Government's flagship cooperative program rather than to the Prior Action. AIIB will follow developments through the Program's regular

monitoring arrangements and the PA 1.3 results indicator. The design of Subprogram 2 will consider further attention to the most vulnerable and lowest-capacity villages.

3.37. PA 1.4 delivers a positive social outcome by strengthening Social Forestry Centers (*Pusat Perhutanan Sosial*) institutional capacity to support approximately 1.2 million households across over 9,000 social forestry groups in accessing technical guidance, enterprise development support, and market facilitation. These centers operate through a participatory planning approach, which covers community facilitation and mentoring, inventory of local knowledge, and tenurial conflict mapping and social forestry groups plan, and manage their areas consultative and group-based processes. Development partners, including KfW, have been supporting Indonesia's national social forestry framework within which the Centers operate. While this policy action does not have direct adverse impacts, executing agency will monitor inclusion of *Masyarakat adat* in the planning process.

3.38. Under Reform Area 2, all three Prior Actions are expected to deliver positive social outcomes for natural resource-dependent communities. PA 2.1 supports the adoption of PP No. 27/2025, Indonesia's first dedicated instrument for the protection and management of mangrove ecosystems. Mangrove ecosystems were previously governed by numerous separate regulations, under arrangements that generally prioritized economic considerations over environmental function and the social function of local communities. The reform is expected to benefit coastal communities dependent on mangrove ecosystem services. Ecosystem function is determined on the basis of a landscape-unit inventory covering physical, biological, social, tenurial conditions, including land ownership, tenure, and existing community use, and designation must have regard to ecosystems services, coastal vulnerability, socioeconomic conditions of community. Sustainable, traditional utilization is expressly permitted in areas designated as protection function as well as in cultivation function areas, and utilization decisions are to have regard to community safety, quality of life, and welfare. Communities, defined to include *masyarakat hukum adat*, are provided with equal opportunity to participate and are empowered through capacity development and the grant of sustainable utilization access, with incentives including partnership and funding facilities available to communities that succeed in restoring or preserving mangrove ecosystems. The regulation further provides a channel for submitting reports, objections and complaints.

3.39. PA 2.2 supports the adoption of PP No. 26/2025, which requires provinces and districts to prepare long-term Environmental Protection and Management Plans (RPPLH) as the basis for development planning. RPPLH preparation is subject to six mandatory considerations, including local wisdom, which covers customary systems, social institutions and customary community institutions, and community views and priorities, as well as ecological characteristics, population distribution, natural resources, and climate change. Specific impact identification also considers socioeconomic effects of environmental degradation, including economic losses from disasters and the loss of ecosystem services. The reform further requires stakeholder consultation during plan preparation and embeds local wisdom considerations into the planning process. Specific implementing procedures were issued within six months of the regulation (Permen LH/BPLH No. 27/2025).

3.40. PA 2.3 supports the operationalization of the payment for ecosystem services framework, which is expected to create income opportunities for communities that manage and protect ecosystems. Participation is voluntary and based on mutually beneficial terms, with preparation requiring participation and inclusive consultation informed by local community knowledge and scientific research. Payment values are determined having regard to fairness between both parties and to the opportunity costs borne by service providers in changing existing activities. Payments received are to be allocated so far as possible to ecosystem restoration, management, and service enhancement, and/or to community welfare at the location of service provision. Participation is open to holders of state land under management rights, including social forestry, and is not limited to titled landholders. Conflict resolution facilitation is assigned to PJLH institutions and to government at national, provincial and district levels, and implementation is reported at least annually through a publicly accessible information system. The mission observed an operating model in Bali in which farmers hosting infiltration wells are paid for verified water-conservation services under monitored, multi-year agreement. Implementation of specific services under this prior action will be monitored by relevant agencies.

3.41. Under Reform Area 3, PA 3.1 supports the adoption of PMK No. 11/2026, which establishes a framework for central government lending to subnational governments for infrastructure, delivered through designated bank and non-bank financial institutions. Infrastructure covers facilities and systems required to deliver services to the community, and eligible activity loans must generate direct or indirect fiscal returns or provide economic or social benefits to the community. The reform is expected to improve subnational access to financing for infrastructure supporting basic service delivery, including climate-resilient water, sanitation, and solid waste services. The framework provides for regions with weaker fiscal positions, such that lending institutions may propose concessional interest rates for regions with limited fiscal capacity, and regions obtaining a concessional rate may receive a government interest subsidy. Environmental and social requirements under the framework apply to the designated lending institutions, which are required to follow sound ESG principles in their operations. ES management of financed infrastructure remains subject to the Government's environmental approval and permitting system. Implementation of this prior action will be monitored as part of the overall monitoring of the Program.

3.42. PA 3.2 establishes the national coordination platform for solid waste management and standardized methods for measuring waste generation and composition, strengthening the basis for investment in a sector where a significant share of waste remains unmanaged. The principal social consideration concerns waste pickers (*pemulung*) and informal recyclers whose livelihoods depend on material recovery and who may face income disruption as services are formalized and material flows are redirected to formal facilities. Mitigating factors related to this concern were identified during the mission. The Government has engaged the national waste pickers' association as part of the updating of the national waste management roadmap. It also recognizes the role of informal sector in waste management wherein the Ministry of Environment envisages upskilling and reskilling opportunities for informal workers as part of the green jobs creation, to be piloted in Jakarta and replicated subject to results. Under SP2, the Government is expected to adopt an end-to-end framework for integrated solid waste management including requirements

for feasibility studies linking proposed investments to service needs. The Project Team will further monitor how inclusion of informal sector will be integrated in relevant technical guidance.

3.43. PA 3.3 is also expected to generate positive social effects by strengthening the governance framework for drinking water service delivery, including integrated planning, service standards, and provisions supporting sustainable financing and climate-resilient investment. Jakstranas SPAM 2026-2030 requires disaster and climate risks to be considered in local drinking water master plans and water safety plans. Expected beneficiaries include low-income and underserved households that are currently dependent on informal or self-supply sources. Affordability protection for low-income households (a lifeline tariff or equivalent measure) will be confirmed as services move toward cost recovery. No physical work arises under this prior action, and any physical work is downstream and project-level.

E. Gender Aspects.

3.44. **Gender Aspects.** The Program is consistent with Indonesia's national gender mainstreaming mandate under Presidential Instruction No. 9/2000 and the RPJPN 2025 to 2045. Indonesia's Gender Inequality Index stood at 0.459 in 2022,⁴⁰ reflecting persistent gaps in labor market participation, empowerment, and reproductive health outcomes. The national female labor force participation rate was 55.4% compared to 84% for men as of the 2024 National Labor Force Survey (SAKERNAS, BPS 2024)⁴¹ with women disproportionately concentrated in informal and unpaid work, particularly in agriculture and natural resource-dependent sectors. While none of the PAs have explicit gender provisions, the sectors and communities they affect have well-documented gender dimensions relevant to the Program's expected outcomes. Under Reform Area 1, women farmers are among those historically underserved by the fragmented district extension system that PA 1.1 reforms and stand to benefit from improved irrigation reliability under PA 1.2 given their concentration in food crop production. Female-headed households are disproportionately dependent on Direct Cash transfer (BLT) direct cash transfers, which remain a priority use of village funds. The same regulation also incentivizes women's voice in village decision-making, as the performance component of the Dana Desa allocation rewards villages whose deliberation processes include women's and disability representation.⁴² Gender-responsive implementation is reflected in the results framework, which includes sex disaggregated reporting on climate-smart agriculture training under PA 1.1

F. Monitoring, Oversight and Accountability

3.45. **Monitoring and Oversight.** Bappenas will monitor program implementation by the implementing agencies and will report to AIIB against each of the indicators and targets included in the Policy and Results Matrix (Annex 1). AIIB will conduct program monitoring on a semi-annual basis. The inter-ministerial technical working group, led by Bappenas, will serve as the primary operational coordination and monitoring mechanism during preparation and implementation. A

⁴⁰ <https://www.undp.org/indonesia/gender>

⁴¹ <https://www.bps.go.id/en/publication/2024/12/20/145b7ca9b2e159c6c0493290/booklet-sakernas-agustus-2024.html>

⁴² PMK No. 7/2026, Article 12(2)(b): mandatory performance indicators for the *Alokasi Kinerja* include the conduct of village deliberations (*musyawarah desa*) involving women's and/or disability-group representation.

Program Completion Report covering the programmatic series will be prepared by AIIB after completion of the final subprogram.

3.46. Results Framework. The Program's results indicators have been selected to measure progress attributable to the supported reforms, with emphasis on institutional changes, implementation progress, and investment-related outcomes rather than broad sector performance. Wherever possible, the framework uses indicators and targets already reflected in RPJMN, ministerial strategic plans, or other government monitoring frameworks, provided that the link to the relevant prior action or policy trigger is clear. Program-specific indicators are used where existing government indicators are too broad or not sufficiently linked to the reform sequence. Baselines, targets, responsible agencies, reporting frequency, and verification methods are set out in the Policy and Results Matrix.

3.47. Know Your Customer / Counterparty (KYC) Due Diligence. The Project Team, in collaboration with the AIIB KYC Team and the Bank's designated external KYC service provider has completed a comprehensive KYC assessment for the Program. This assessment encompassed all identified counterparties as well as non-contractual entities involved in the transaction. The Program has been assigned a KYC risk rating of medium, based on the risk scoring of the evaluation. The KYC workflow has been duly finalized and approved via the IO KYC Portal. No indicators of significant money laundering, terrorist financing, sanctions violations, bribery or corruption, tax transparency issues, or other financial crime exposures were identified during the assessment.

3.48. Governance and Anti-Corruption. The Policy on Prohibited Practices applies to CPBF. AIIB is committed to preventing fraud and corruption in the programs it finances and places the highest priority on ensuring that this Program is implemented in compliance with its Policy on Prohibited Practices, as reflected in the Legal Agreements. Implementation will be monitored regularly by AIIB staff, in coordination with the Bappenas. AIIB reserves the right to investigate, directly or indirectly through its agents, any alleged corrupt, fraudulent, collusive, coercive, or obstructive practices, as well as misuse of resources or theft relating to the Program, and to take timely and appropriate measures to prevent and redress such issues.

3.49. Grievance Mechanisms. Indonesia's PFM and accountability framework includes: BPK; the Financial and Development Supervisory Agency, which undertakes internal audits; the Corruption Eradication Commission (KPK), which oversees anti-corruption enforcement; and the Ombudsman, which handles public complaints about government services. These institutions provide multiple layers of accountability for Program implementation. Indonesia's public information law (UU KIP) also ensures that budget and spending information is publicly accessible, supporting transparency.

3.50. Grievance Redress and the Bank's Project-affected People's Mechanism (PPM). Individuals and communities who believe they are adversely affected by the Program may submit complaints to the responsible government authorities and the appropriate local/national grievance mechanisms. People who believe they have been or are likely to be adversely affected by specific country policies supported as Prior Actions under the Program - in situations when their concerns

cannot be addressed satisfactorily through the local/national grievance mechanisms or the processes of the Bank's Management – can submit their concerns via the PPM. For information on AIIB's PPM, please visit: <https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html>.

G. Risks and Mitigation Measures

Table 2. Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
Preparation Risks		
Political and Governance		
Political economy risk: Resistance from subnational actors or vested interests to institutional reforms affecting land use, service delivery, or fiscal transfers	H	The supported reforms are embedded in government policy and planning frameworks and have identifiable institutional owners. Preparation and implementation will include continued consultation with affected ministries, subnational governments, communities, and other stakeholders; and escalation of unresolved coordination or implementation issues through the Bappenas-led TWG.
Macroeconomics		
Fiscal slippages, including pressures from fossil fuel subsidy and other social spending, together with challenging external environment, could raise concerns about the quality of policymaking and the strength of macroeconomic fundamentals with material impact on country risk.	M	Mitigants include a track record of prudent policymaking, the fiscal rules, low debt, adequate FX reserves and an investment grade sovereign credit rating.
Sectoral / Climate Strategies and Policies		
The implementation of climate policies depends on effective coordination across multiple national institutions (including environment, sectoral, and	M	Establishment of an inter-ministerial technical working group led by Bappenas with clear focal points and regular coordination meetings supported by SP2 operational guidance, planning frameworks, and

Risk Description	Assessment (H/M/L)	Mitigation Measures
planning ministries) and strong engagement at the subnational level. Variations in capacity, coordination, and readiness to operationalize new frameworks and planning instruments may pose challenges to effective implementation.		implementation arrangements across the three reform areas. MoF engagement as representative of the Borrower provides additional leverage. In addition, clear, specific, and measurable climate-related indicators, particularly focused on climate adaptation, have been incorporated to ensure that the implementation of policy actions strengthens resilience and supports long-term adaptation outcomes.
Technical Designs		
▪ Delays in confirming the scope, institutional responsibilities, evidence requirements, and implementation arrangements for the indicative SP2 Prior Actions.	M	▪ The Bappenas-led TWG and reform-area sub-working groups will coordinate early preparation of SP2, including confirmation of responsible agencies, regulatory pathways, implementation milestones, technical assistance needs, and evidence requirements. Progress will be reviewed regularly through policy dialogue with AIIB and development partners.
Implementation Risks		
Implementation Capacity		
▪ Limited technical and institutional capacity of implementing agencies, particularly at subnational level, to translate national reforms into operational outcomes	H	▪ Targeted technical assistance across all three reform areas will support the preparation and application of operational guidance, planning tools, monitoring and verification systems, and investment preparation, complemented by phased reform sequencing and coordination with development partners.
Private Capital Mobilization		
▪ Limited private sector response to newly established financing and regulatory frameworks in the short term	M	▪ Strengthening project pipelines, improving regulatory clarity, and maintaining public investment support during early implementation
Fiduciary Governance		

Risk Description	Assessment (H/M/L)	Mitigation Measures
Ongoing reforms to strengthen performance-based budgeting may take time to be fully embedded, which could affect the timely translation of CPBF-supported policy actions into budget execution and results	M	- Align policy actions with points of control in the budget cycle (RKA preparation, APBN approval, DIPA issuance, mid-year revision), - Clear sequence of policy actions, strong ownership by central agencies, and continued monitoring through policy dialogue and review of budget execution and reform progress
Environmental and Social		
Limited institutional capacity to incorporate relevant ES considerations into the SP2 actions and monitor progress.	M	Relevant ES considerations will be incorporated into the SP2 actions through the preparation of specific TORs. The TORs will be reviewed by the AIIB Project Team, as appropriate, to reflect relevant E&S considerations and align with the corresponding operational frameworks, technical standards, and implementation guidelines to be developed under SP2. The TWG, led by Bappenas, will oversee and regularly monitor the progress of preparing the SP2 actions, in accordance with the respective TORs.
Stakeholders		
Differing incentives and varying levels of ownership among central ministries, subnational governments, communities, and private sector actors may affect coordination, commitment, and uptake of reforms, particularly where reforms influence land use, service delivery responsibilities, fiscal incentives, or compliance obligations.	M	Early and continuous stakeholder engagement through the Bappenas-led inter-ministerial technical working group and targeted consultations with key ministries, subnational governments, and relevant non-state actors; clear assignment of roles and focal points; communication of the reform rationale and expected benefits and practical implementation requirements.

Annex 1: Policy and Results Matrix (PRM)

Overall Program Objective: To support the Government of Indonesia's policy and institutional reforms to strengthen climate resilience in the rural economy, ecosystems, and local service delivery.

Prior Actions for Subprogram 1	Indicative Prior Actions for Subprogram 2	Results				
		Output Indicator	Unit of Measurement	Baseline (2026)	Target (2029)	Responsibility, Frequency & Method
Reform Area 1: Climate-Adaptive Rural Economy						
(completed) PA 1.1 To improve central coordination of agricultural extension services in support of food self-sufficiency, the Government has reformed the national agricultural extension services by transferring the state civil apparatus of extension workers (<i>penyuluh pertanian</i>) from provincial and local governments to the central government under the Ministry of Agriculture through Presidential Instruction No. 3/2025, dated February 4, 2025.	To institutionalize climate-smart agriculture in the national extension system, the Ministry of Agriculture will adopt national training modules on climate-smart agriculture and a rollout plan for agricultural extension workers, with identified budget sources or financing support.	Percentage of agricultural extension workers in priority high climate-risk areas trained on climate-smart agriculture, with sex-disaggregated data reporting, including the share of women among trained extension workers.	Percentage	0	20	MoA, annual reporting based on adopted training modules, rollout plan, sex-disaggregated training records, and TWG validation.
(completed) PA 1.2 To accelerate coordinated irrigation development and maintenance in support of food self-sufficiency, the Government has established a centralized	To improve climate-smart tertiary irrigation operation and maintenance, the Ministry of Agriculture will adopt a tertiary irrigation operation and	Percentage of priority tertiary irrigation systems with validated climate-smart operation and maintenance	Percentage	0	20	MoA, annual reporting based on the adopted irrigation O&M framework, priority system list, O&M plans, and TWG

and coordinated framework for the development, upgrading, rehabilitation, and operation and maintenance of irrigation networks through Presidential Instruction No. 2/2025, dated Jan. 30, 2025.	maintenance framework.	plans.				review.
(completed) PA 1.3 To strengthen climate adaptation mainstreaming in intergovernmental fiscal transfers, the Government has integrated the Village Climate Risk Index (IRID) into the Dana Desa (Village Fund) allocation system directing additional resources to climate-vulnerable communities through Ministry of Finance Regulation No. 7/2026, dated February 9, 2026.	To translate IRID-based allocations into climate-resilience outcomes at the village level, the Ministry of Villages and Development of Disadvantaged Regions will issue operational guidance on the use of IRID to support village planning, budgeting, and reporting for eligible climate-resilience activities.	Percentage of villages receiving the IRID-based Affirmation Allocation under Dana Desa that allocate resources to eligible climate-resilience activities.	Percentage	0	80	MoV, annual reporting based on IRID, Dana Desa allocation data, and APBDes/Siskeude s records where available.
(completed) PA 1.4 To improve institutional support for social forestry implementation and facilitation of Community-Based Social Forestry Enterprises, the Government has strengthened the Social Forestry Center framework through Ministry of Forestry Regulation No. 7/2025,	To improve KUPS readiness to access climate and blended finance, the Ministry of Forestry will adopt a financing framework to support sustainable forest-based value chains and conservation-linked enterprise development.	Number of Gold and Platinum class KUPS verified as meeting eligibility criteria to access climate and blended finance.	Number	0	20	MoFor, annual reporting based on the adopted financing framework, GoKUPS registry, KUPS classification data, and eligibility verification records.

dated March 19, 2025.						
Reform Area 2: Ecosystem-Based Climate Resilience						
(completed) PA 2.1 To strengthen mangrove ecosystem protection and management, the Government has established a national framework for the protection, management, rehabilitation, sustainable use, and conversion control of mangrove ecosystems, through Government Regulation No. 27/2025, dated June 5, 2025.	To support provincial implementation of the national mangrove framework, the Ministry of Environment/Head of the Environmental Control Agency will adopt an operational framework to support the preparation and mainstreaming of provincial RPPEM.	Number of provinces that have prepared and submitted draft RPPEM for consultation and review.	Number	0	10	MoE, annual reporting based on issued RPPEM guidance, provincial submissions, and MoE review.
(completed) PA 2.2 To establish environmental carrying capacity and assimilative capacity as references for development and spatial planning, the Government has regulated environmental inventory, ecoregion determination, and the preparation and use of Environmental Protection and Management Plans (RPPLH), through Government Regulation No. 26/2025, dated June 5, 2025.	To operationalize the use of RPPLH in planning and investment decisions, the Ministry of Environment/Head of the Environmental Control Agency will adopt an operational module for RPPLH evaluation and the use of evaluation findings in sector planning and investment-screening processes.	Number of provinces that complete RPPLH evaluation using the operational module.	Number	0	5	MoE, Annual reporting based on MoE/BPLH records of provincial RPPLH, copies of enacted Perda, and documentary review against the climate-informed RPPLH framework.
(completed) PA 2.3 To operationalize incentive-based environmental economic instruments for	To strengthen the operational use of Payment for Environmental Services	Number of signed Payment for Environmental	Number	20	50	MoE, Annual reporting based on PJLH administrative

maintaining and improving the quality of environmental services, the Government has established the regulatory framework for the development of Payment for Environmental Services systems, including performance-based cooperation agreements between environmental service providers and users, through Minister of Environment/Head of BPLH Regulation No. 2/2025, dated April 14, 2025	(PJLH) for Ecosystem-Based Climate Resilience, the Ministry of Environment/Head of the Environmental Control Agency will adopt technical guidelines to standardize environmental service financing arrangements into PJLH-compliant cooperation agreements.	Services (PJLH) cooperation agreements (PKS) that finance or support ecosystem protection, restoration, or sustainable management activities				records, signed PKS documents, and verification that counted agreements meet resilience-oriented eligibility criteria.
Reform Area 3: Resilient Local Service Delivery						
(completed) PA 3.1 To expand financing options for subnational infrastructure and public service investments, the Government has established a framework for subnational lending sourced from banks and non-bank financial institutions, through Ministry of Finance Regulation No. 11/2026, dated March 4, 2026.	To operationalize the subnational lending framework for climate-resilient infrastructure and public services, the Ministry of Finance will issue technical guidance for identifying and developing climate-adaptation-relevant subnational investments.	Number of climate-adaptation-relevant subnational investment concepts identified by local governments.	Number	0	10	MoF, Annual reporting based on submitted proposals, screening/appraisal records.
(completed) PA 3.2 To improve national coordination and standardize the data basis for integrated upstream-to-downstream solid waste	To operationalize end-to-end solid waste management, the Government will adopt a framework linking SNI-based waste	Number of local governments applying the adopted end-to-end solid waste management	Number	0	10	Bappenas, Annual reporting based on records of the national coordination mechanism,

management, the Government has: (i) established the National Strategic Coordination Team for the Integrated Upstream-to-Downstream Waste Management Reform Program, through Bappenas Decree No. KEP.111/M.PPN/HK/12/2025, dated Dec. 24, 2025; and (ii) adopted standardized methods for measuring municipal waste generation and composition, through SNI 3964:2025.	measurement, service performance assessment using Waste Management Ladder (WML)-based IKPS, service improvement and infrastructure investment planning, and financing options.	framework to assess service performance and identify priority service improvement and investment needs.				WML-based IKPS adoption evidence, SIPSN/SIKPSN or related data-system records, and documentary review of local government application.
(completed) PA 3.3 To set the national framework for safe, sustainable, and disaster- and climate-resilient drinking water supply, the Government has adopted the National Policy and Strategy for the Implementation of Drinking Water Supply Systems (Jakstranas SPAM) for 2026–2030, through Ministry of Public Works Regulation No. 6/2026, dated March 13, 2026.	To operationalize climate-resilient SPAM planning, the Minister of Public Works will adopt a framework for local governments to incorporate disaster and climate-risk considerations into RISPAM and related SPAM planning documents.	Number of cities/districts that incorporate disaster and climate-risk considerations into RISPAM or related SPAM planning documents.	Number	0	10	MPW, Annual reporting based on adopted framework, list of participating cities/districts, planning documents applying the framework

Ministry of Agriculture (MoA), Ministry of Forestry (MoFor), Ministry of Villages and Development of Disadvantaged Regions (MoV); Ministry of Environment (MoE); Ministry of Public Works (MPW); Ministry of Finance (MoF); Ministry of National Planning (Bappenas)

Annex 2: Paris Agreement and Climate Finance Assessment

The Paris Agreement Alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending Operations, version 1.0, June 2023. An operation must be aligned with both BB1 and BB2 to be considered Paris aligned. The assessment below focuses on the completed Prior Actions under Program 1 and assesses their consistency with Indonesia’s climate commitments, their alignment with the mitigation and adaptation goals of the Paris Agreement, and their contribution to climate finance.

The Program is assessed as aligned with both BB1 and BB2. It supports Indonesia’s policy and institutional reforms to support low-carbon development, strengthen climate adaptive capacity in the rural economy, ecosystems, and climate-resilient local service delivery.

Step 1: Assessing Consistency of the PBL-Supported Government Reform Program with Indonesia’s Climate Change Priorities

The Program is fully consistent with Indonesia’s climate change priorities as articulated in the SNDC, the LTS-LCCR 2050, and the National Adaptation Plan 2026–2030. Indonesia’s climate policy framework embeds climate mitigation and adaptation into national development planning and emphasizes coordinated action across agriculture, water, forestry and other land use, ecosystems, infrastructure, basic services, and subnational governance.

The first reform area, Climate-Adaptive Rural Economy, supports Indonesia’s climate agenda by strengthening the systems through which climate risk information, climate-smart agriculture, water-use efficiency, village-level adaptation finance, and sustainable forest-based livelihoods are delivered. PA 1.1 strengthens the national agricultural extension system by centralizing agricultural extension workers under the Ministry of Agriculture, creating the institutional delivery channel for climate-smart agriculture and climate-informed advisory services. PA 1.2 establishes a centralized and coordinated irrigation framework, supporting climate-smart irrigation operation and maintenance, improved water-use efficiency, and more reliable agricultural water supply under heightened climate variability. PA 1.3 integrates the Village Climate Risk Index into the Dana Desa allocation system, embedding climate risk into intergovernmental fiscal transfers and directing additional resources to climate-vulnerable villages. PA 1.4 strengthens the Social Forestry Center framework, improving institutional support for Community-Based Social Forestry Enterprises and supporting climate-resilient, sustainable forest-based livelihoods.

The second reform area, Ecosystem-Based Climate Resilience, supports Indonesia’s climate commitments by strengthening the legal, planning, and financing framework for Nature-based solution (NbS). PA 2.1 establishes a national framework for the protection, management, rehabilitation, sustainable use, and conversion control of mangrove ecosystems. This supports coastal resilience by maintaining natural buffers against sea-level rise, storm surge, coastal erosion, flooding, and saline intrusion, while also protecting blue-carbon ecosystems. PA 2.2

regulates environmental inventory, ecoregion determination, and the preparation and use of Environmental Protection and Management Plans, thereby embedding environmental carrying capacity and assimilative capacity into development and spatial planning. PA 2.3 establishes the regulatory framework for Payment for Environmental Services systems, creating a performance-based instrument to finance ecosystem protection, restoration, and sustainable management.

The third reform area, Resilient Local Service Delivery, supports climate-resilient infrastructure and basic services. PA 3.1 establishes a framework for subnational lending sourced from banks and non-bank financial institutions, creating a financing channel through which local governments can identify and develop climate adaptation-relevant infrastructure and public service investments. PA 3.2 strengthens national coordination and standardized data for integrated upstream-to-downstream solid waste management, creating the data and governance basis that is critical for methane-reduction planning, climate-resilient waste service planning, and future waste sector investments. PA 3.3 adopts the National Policy and Strategy for the Implementation of Drinking Water Supply Systems for 2026–2030, strengthening the framework for safe, sustainable, and disaster- and climate-resilient drinking water supply.

Across the three reform areas, the completed Program 1 prior actions are consistent with Indonesia's climate priorities as they strengthen the systems through which climate risk information, ecosystem protection, resource efficiency, adaptation finance, and resilient public service planning are incorporated into public decision-making. The Program is adaptation focused, reflecting its objective to strengthen climate adaptive capacity in the rural economy, ecosystems, and climate-resilient local service delivery, while generating targeted mitigation co-benefits.

Step 2.1: Assessing the Mitigation Alignment of the Reform Program (BB1)

Criterion 1a: Does the PBL reform program consist of policy actions that support activities that actively contribute or do-no-harm to decarbonization pathways in line with the mitigation goals of the Paris Agreement in all circumstances (i.e., universally aligned activities)?

Yes. The Program consists of policy, regulatory, institutional, planning, financing, and coordination reforms that actively contribute to, or do no harm to, Indonesia's low-carbon development pathway. It establishes strong enabling conditions for climate-smart agriculture, irrigation efficiency, ecosystem protection, improved environmental planning, conservation finance, solid waste methane-reduction readiness, and climate-resilient local service delivery.

Several prior actions actively support mitigation outcomes. Under Reform Area 1, PA 1.1 supports the dissemination of climate-smart agricultural practices through a strengthened national extension system, including practices with mitigation co-benefits such. This may include improved nutrient management, efficient fertilizer use, and low-emission farm management. PA 1.2 supports more efficient irrigation operation and maintenance, which can reduce water losses and lower energy requirements for water abstraction and distribution. PA 1.4 strengthens the institutional framework for social forestry implementation, supporting sustainable forest-based

livelihoods, reduced degradation pressures, and the maintenance or enhancement of forest carbon sinks. Reform Area 2 also contributes to mitigation. PA 2.1 supports mangrove protection and rehabilitation, helping avoid emissions from mangrove degradation while maintaining blue-carbon stocks. PA 2.2 strengthens environmental planning and land-use governance through RPPLH, supporting more climate-informed development decisions and reducing the risk of environmentally driven emissions. PA 2.3 operationalizes Payment for Environmental Services, creating incentives for ecosystem protection, restoration, and sustainable management, including activities that maintain or enhance carbon sinks. Under Reform Area 3, PA 3.2 contributes to mitigation readiness by strengthening solid waste coordination and standardized waste measurement, which are necessary upstream conditions for future methane-reduction investments such as organic waste diversion, landfill-gas management, recycling, and circular economy approaches.

Other prior actions are primarily adaptation focused and do not claim mitigation finance. PA 1.3 integrates climate risk into village fiscal transfers; PA 3.1 strengthens financing channels for climate-adaptation-relevant subnational investments; and PA 3.3 strengthens disaster- and climate-risk-informed drinking water planning. These actions do not support emissions-intensive activities or create barriers to Indonesia's low-carbon transition.

Criterion 1b: Does the PBL reform program support activities that contradict the mitigation goals of the Paris Agreement (i.e., universally non-aligned activities)?

No. The Program does not support activities that contradict the mitigation goals of the Paris Agreement. It does not support fossil fuel extraction, fossil-fuel-based power generation, coal-fired power generation, carbon-intensive industrial expansion, long-lived dedicated fossil-fuel infrastructure, or infrastructure that would create high-carbon lock-in. The completed prior actions are policy and institutional reforms focused on climate-smart agriculture, irrigation efficiency, ecosystem protection, climate-informed fiscal transfers, social forestry, environmental planning, conservation finance, solid waste governance, subnational climate-resilient infrastructure financing, and resilient drinking water supply planning.

Criterion 2a: Do the policy actions supported by the PBL reform program lead to a significant increase in GHG emissions? Do they introduce or reinforce persistent barriers to use/transition to lower-carbon means to achieve stated development objectives (i.e., there is a significant carbon lock-in risk)?

No. The completed prior actions are not expected to lead to a significant increase in GHG emissions or introduce persistent barriers to lower-carbon development. The Program does not support expansion of emissions-intensive production, high-carbon infrastructure, or technologies that would lock in emissions. Instead, it strengthens governance, planning, financing, coordination, and data systems that are expected to improve resource efficiency, protect carbon-rich ecosystems, and enable climate-relevant public investment.

Measures related to agricultural extension and irrigation modernization are designed to improve productivity, water-use efficiency, and climate resilience without increasing emissions intensity. Measures related to social forestry, mangrove protection, RPPLH, and Payment for Environmental Services strengthen the policy and institutional basis for ecosystem protection and sustainable land use, reducing degradation-related emissions and maintaining natural carbon sinks. Solid waste reforms improve the governance and data foundations needed to support future waste-sector mitigation. Adaptation focused actions in village finance, subnational lending, and drinking water planning do not create carbon lock-in and remain compatible with Indonesia's low-carbon development pathway.

Criterion 2b: Are risks/barriers identified mitigated?

No material carbon lock-in risks or persistent barriers to low-carbon transition have been identified. The policy actions are well aligned with Indonesia's SNDC, NAP, and LTS-LCCR and have been carefully designed to strengthen institutional frameworks, governance, and financing mechanisms for climate-resilient development (with mitigation co-benefits). The inclusion of targeted, climate-focused indicators supports the translation of implementation into tangible resilience outcomes with targeted mitigation co-benefits.

Step 2.2: Assessing the Adaptation and Resilience Alignment of the Reform Program (BB2)

Criterion 1: Are risks from climate hazards likely to have an adverse effect on the development objective(s) of PBL reform program's policy or institutional actions?

No. Indonesia is highly exposed to climate hazards and associated impacts, including but not limited to floods, droughts, sea-level rise, coastal erosion, salinity intrusion, changing rainfall patterns, sedimentation, heat, ecosystem degradation, and climate-related service disruptions. However, these hazards and associated impacts are not expected to adversely affect the Program's policy and institutional reform objectives because the Program is specifically designed to strengthen the systems through which these risks are identified and managed.

The Program's completed prior actions directly address climate risks in climate-sensitive sectors and systems. PA 1.1 strengthens the capacity of agricultural extension workers to deliver climate-informed advisory services to farmers. PA 1.2 strengthens irrigation governance and O&M systems needed to manage changing hydrological conditions and improve reliability of agricultural water supply. PA 1.3 directs additional resources to climate-vulnerable villages through the Dana Desa allocation system. PA 1.4 supports forest-dependent communities and sustainable forest-based livelihoods, helping maintain ecosystem services under climate stress.

Reform Area 2 directly strengthens ecosystem-based adaptation. Mangrove protection under PA 2.1 reduces exposure to coastal hazards by maintaining natural buffers. RPPLH under PA 2.2

improves the integration of climate and environmental risk considerations into development and spatial planning. Payment for Environmental Services under PA 2.3 provides a financing and incentive mechanism to sustain ecosystem functions such as water regulation, flood mitigation, erosion control, biodiversity protection, and landscape resilience.

Reform Area 3 strengthens resilience of local service delivery. PA 3.1 expands financing options for enabling climate adaptation relevant subnational infrastructure and public service investments. PA 3.2 improves solid waste governance and data systems, supporting more reliable local waste services and reducing drainage blockages, environmental contamination, and public health risks during heavy rainfall and floods by removing systemic data, coordination, and planning barriers to climate-resilient waste-service delivery. PA 3.3 strengthens safe, sustainable, and climate-resilient drinking water supply planning by requiring disaster and climate-risk considerations to be incorporated into RISPAM and related SPAM planning documents.

The Program is therefore aligned with BB2 because it strengthens adaptive capacity, reduces systemic vulnerability, and improves the ability of rural communities, ecosystems, local governments, and public service systems to anticipate, manage, and respond to risks associated with climate hazards.

The overall assessment confirms that the Program is aligned with both the mitigation goals and the adaptation and resilience goals of the Paris Agreement.

Climate Finance

Climate finance was assessed based on the Joint MDB methodologies for tracking climate mitigation and adaptation finance. For policy-based financing, climate-related prior actions can be reported as climate finance, and the proportion of reported climate finance follows the proportion of climate-related prior actions. For this Program, the assessment applies equal weighting across the ten completed Program 1 prior actions. Where a prior action has a broader environmental, service delivery, or institutional scope that is not exclusively climate-driven, only the climate-relevant portion is considered for climate finance.

Based on this assessment, USD462.50 million, equivalent to 92.5% of AIIB financing, qualifies as climate finance. This comprises USD343.75 million in climate adaptation finance, equivalent to 68.75% of AIIB financing, and USD118.75 million in climate mitigation finance, equivalent to 23.75% of AIIB financing. Of the total climate finance amount, USD187.50 million is assessed as delivering dual adaptation and mitigation benefits. Dual-benefit finance is reported as a descriptive subset of the climate finance envelope and is not added to the total climate finance amount.

The prior actions contributing to adaptation finance are PA 1.1, PA 1.2, PA 1.3, PA 1.4, PA 2.1, PA 2.2, PA 2.3, PA 3.1, PA 3.2, and PA 3.3. These actions strengthen climate-smart agriculture, irrigation resilience, climate-risk-informed village fiscal transfers, social forestry, mangrove protection, climate risk-informed environmental planning, payment for environmental services,

climate adaptation relevant subnational infrastructure financing, climate-resilient solid waste service planning and investment readiness, and climate-resilient drinking water supply planning.

The prior actions contributing to mitigation finance are PA 1.1, PA 1.2, PA 1.4, PA 2.1, PA 2.2, PA 2.3, and PA 3.2. These actions support mitigation through climate-smart agriculture capacity building, irrigation resource-use efficiency, social forestry and FOLU-related carbon sink protection, mangrove protection and blue-carbon benefits, climate-informed land-use and environmental planning, ecosystem service financing, and solid waste governance and data systems that enable downstream methane-reduction planning.

Annex 3: Prior Actions and Analytical Underpinnings

Prior Action / Analytical Work	Analytical basis for the reform substance
PA1.1 Agricultural Extension Reform • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • World Bank, Alliance of Bioversity International and CIAT. 2021. <i>Climate-Smart Agriculture in Indonesia</i>. • FAO. 2017. <i>Climate-Smart Agriculture Sourcebook</i>. • Effendi et al. 2024. <i>Revitalising the Function of Agricultural Extension in Indonesia to Support Rice Self-Sufficiency</i>	CCDR and CSA literature point to the need for farmer-facing advisory systems that can translate location-specific climate risks, weather information, early warnings, and climate-smart agriculture practices into practical guidance. The World Bank/CIAT CSA Profile and FAO Sourcebook further emphasize the role of extension and rural advisory services in supporting CSA adoption. Effendi et al. adds the Indonesia-specific institutional context, noting that extension institutions faced uncertainty after Law No. 23/2014, with inoptimal coordination, supervision, and guidance. The analytical basis therefore supports the rationale for a more nationally coordinated extension system, while also indicating that the reform should not stop at administrative transfer. It should be followed by practical CSA content, training modules, links to climate, and weather information.
PA1.2 Irrigation Governance • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • World Bank. 2022. <i>Indonesia Pioneers Irrigation Service Delivery Innovation</i>. • World Bank. 2024. <i>Making Every Drop Count: Rebuilding Small-Scale Irrigation in Indonesia to Counter Climate Change</i>. • ADB. 2016. <i>Indonesia Country Water Assessment</i>. • OECD. 2023. <i>Water Financing and Disaster Risk Reduction in Indonesia</i>.	The CCDR and water-sector diagnostics frame irrigation reliability as both a climate-resilience and institutional coordination issue. The CCDR highlights water scarcity, rainfall variability, and the relevance of water-saving irrigation and climate-resilient agricultural infrastructure. World Bank irrigation analysis adds the Indonesia-specific implementation constraint, noting fragmented responsibilities across government tiers, low accountability, limited water information, and field-level capacity gaps. The World Bank's small-scale irrigation work further notes that limited maintenance budgets have contributed to a "build, neglect, and rebuild" cycle. This gives the reform a clear operational logic: stronger coordination needs to be complemented by climate-smart O&M framework, including service standards, financing considerations, hydrological and climate information, and validated O&M plans.
PA1.3 Village Fund Climate Adaptation Financing • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • World Bank. 2021. <i>Delivering Together: Using Indonesia's Village Law to Optimize Frontline Service Delivery</i>. • World Bank. 2020. <i>Indonesian Village</i>	The CCDR points to the importance of local climate-risk information, community-level adaptation, and local decision-making. World Bank Village Law analytics show that Village Funds are a major fiscal channel for village infrastructure and services relevant to resilience, including water, sanitation, drainage, and irrigation. However, the same body of work also

<i>Governance Under the New Village Law: Sentinel Villages Report.</i>	highlights coordination, capacity, accountability, facilitation, and data-use constraints. The Sentinel Villages Report cautions that increased village funding does not automatically translate into larger or more strategic investments without knowledge, technical support, and practical guidance. The analytical basis therefore supports linking IRID to Village Fund allocation, while also pointing to the need for technical guidance so villages can identify locally relevant resilience activities.
PA 1.4 Social Forestry Centers and KUPS • World Bank. 2023. <i>Indonesia Country Climate and Development Report.</i> • World Bank. 2026. <i>Social Forestry in Indonesia: Empowering Communities, Creating Jobs, and Protecting Forests.</i> • AIIB. 2023. <i>Asian Infrastructure Finance 2023: Nature as Infrastructure.</i>	The CCDD notes that social forestry rights can help shift incentives away from forest clearing toward lower-impact land uses, especially when combined with livelihood support, capital, and technical resources. World Bank social forestry analysis similarly suggests that legal access needs to be complemented by facilitation, enterprise development, knowledge, trust, and market access. AIIB's Nature as Infrastructure framing adds to the climate and resilience value of forest landscapes. This analytical basis supports a reform focus on strengthening the institutional and financing pathway for social forestry implementation, so that legal access can be translated into sustainable forest-based livelihoods and ecosystem stewardship.
PA2.1 Mangrove Protection and Management • World Bank. 2023. <i>Indonesia Country Climate and Development Report.</i> • World Bank. 2021. <i>The Economics of Large-Scale Mangrove Conservation and Restoration in Indonesia.</i> • AIIB. 2023. <i>Asian Infrastructure Finance 2023: Nature as Infrastructure.</i> • AIIB and Paulson Institute. 2025. <i>Unlocking Private Finance for Nature as Infrastructure.</i> • World Bank and ADB. 2021. <i>Climate Risk Country Profile: Indonesia.</i>	The CCDD and mangrove economics literature frame mangroves as natural assets that provide coastal protection, climate regulation, fisheries, biodiversity, livelihood, and blue-carbon benefits. The World Bank mangrove economics study also highlights that conserving existing mangroves can generate high net benefits and that effective management requires long-term planning, monitoring, financing, and benefit-sharing. AIIB's Nature as Infrastructure work adds the logic that mangroves provide infrastructure-like resilience services, while nature finance work points to the need for credible financing structures. This supports the rationale that RPPM as a planning instrument should connect mangrove priorities with spatial planning, budgeting, monitoring, financing options, and future investment preparation.
PA2.2 Environmental Protection and Management Planning • World Bank. 2023. <i>Indonesia Country Climate and Development Report.</i> • OECD. 2019. <i>Green Growth Policy Review of Indonesia.</i>	The CCDD highlights the role of data, spatial planning, hydrological information, flood-risk mapping, and implementation of spatial plans in reducing climate impacts. OECD and AIIB analytical work further point to the need to account for environmental pressures, natural

• OECD. 2024. <i>Adapting Infrastructure to Changing Climatic Conditions: The Case of Indonesia</i>. • AIIB. 2023. <i>Asian Infrastructure Finance 2023: Nature as Infrastructure</i>.	capital, ecosystem services, and climate risks in development and infrastructure decisions. The reform logic is therefore that RPPLH should not remain a stand-alone environmental document. It should help bring environmental carrying capacity, ecosystem services, and climate-risk considerations into development planning, sector planning, spatial planning, and investment screening.
PA2.3 Payment for Environmental Services / PJLH • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • AIIB. 2023. <i>Asian Infrastructure Finance 2023: Nature as Infrastructure</i>. • AIIB and Paulson Institute. 2025. <i>Unlocking Private Finance for Nature as Infrastructure</i>. • OECD. 2019. <i>Green Growth Policy Review of Indonesia</i>.	The CCDD discusses payments for ecosystem services and results-based payments as possible land-use fiscal instruments. AIIB and OECD analytical work further note that ecosystem services are often undervalued in conventional planning and financing decisions, and that operational financing arrangements require clearer rules, revenue mechanisms, monitoring, valuation, and benefit-sharing. This provides the rationale for PJLH as an incentive mechanism for ecosystem stewardship, while giving practical substance to cooperation agreements.
PA3.1 Subnational Infrastructure Financing • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • World Bank. 2020. <i>Indonesia Public Expenditure Review: Spending for Better Results</i>. • OECD. 2024. <i>Adapting Infrastructure to Changing Climatic Conditions: The Case of Indonesia</i>. • OECD. 2023. <i>Water Financing and Disaster Risk Reduction in Indonesia</i>. • UNDRR. 2024. <i>Guide for Adaptation and Resilience Finance</i>.	The CCDD notes that resilience investments and contingent liabilities will require further financing. The Public Expenditure Review highlights infrastructure financing needs, spending quality, data, and performance orientation. OECD analysis adds that local governments may access loans and other instruments but often face fiscal and technical capacity constraints, while UNDRR guidance helps frame adaptation relevance, resilience benefits, and screening considerations. This points to a reform design in which financing access is paired with practical guidance so local governments can identify adaptation-relevant investment, describe expected resilience benefits, consider fiscal implications, and avoid maladaptation.
PA3.2 Integrated Solid Waste Management • Bappenas and LCDI. <i>Transforming Waste Data Quality for Effective and Efficient Waste Management</i>. • Bappenas and GIZ ERiC-DKTI. 2024. <i>National Waste Management Reform</i>. • World Bank. 2021. <i>Plastic Waste Discharges from Rivers and Coastlines in Indonesia</i>. • World Bank. 2018. <i>What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050</i>.	The waste sector analytics identify deficient planning, unreliable data, limited capacity, institutional constraints, financing gaps, and collection and treatment gaps as core bottlenecks. Bappenas/LCDI and Bappenas/GIZ highlight why standardized waste data, planning instruments, national coordination, financing models, and institutional arrangements need to be addressed as part of the same reform agenda. The World Bank plastic leakage report highlights the role of uncollected waste, while <i>What a Waste 2.0</i> emphasizes that waste planning requires reliable data to guide

	technology choices, budget and land allocation, and service arrangements. The reform substance is therefore an end-to-end framework covering waste measurement, service-performance assessment, priority service improvements, institutional arrangements, investment needs, and financing options
PA3.3 Climate-Resilient SPAM Planning • World Bank. 2023. <i>Indonesia Country Climate and Development Report</i>. • World Bank and ADB. 2021. <i>Climate Risk Country Profile: Indonesia</i>. • ADB. 2016. <i>Indonesia Country Water Assessment</i>. • World Bank. 2021. <i>Planning for an Uncertain Future: Strengthening the Resilience of Indonesian Water Utilities</i>. • OECD. 2023. <i>Water Financing and Disaster Risk Reduction in Indonesia</i>.	The analytical work links water-supply planning with climate risk, raw-water reliability, disaster exposure, utility performance, O&M financing, and long-term service continuity. The CCDR connects low piped-water coverage, groundwater extraction, land subsidence, urban flooding, and utility financing constraints. The Climate Risk Country Profile and ADB Water Assessment highlight water stress, drought, flooding, and water-management challenges, while the World Bank utility resilience report emphasizes integrating climate adaptation and disaster-risk management into water-supply systems. This analytical basis supports a reform focus on strengthening climate-resilient SPAM planning, so that RISPAM and related planning documents can better account for climate and disaster risks, raw-water reliability, service continuity, and financing implications in the prioritization of water-supply investments.

Annex 4: Environmental and Social Matrix

Prior Action	Likely environmental impact	Likely social impact
(completed) PA 1.1 To improve nationally coordinated agricultural advisory services in support of accelerated and sustainable food self-sufficiency, the President has issued Presidential Instruction No. 3/2025 through which agricultural extension workers are transferred from local government management to the central government.	Positive impact. More consistent dissemination and uptake of CSA, integrated pest management (IPM), and safer agrochemical handling is expected to reduce vulnerability to climate variability. Transition risks may arise if service delivery is disrupted or if productivity incentives increase agrochemical use without adequate ES risk management, potentially causing localized soil and water impacts. Risk mitigation is through service continuity and strengthened/standardized extension curriculum on CSA/IPM, safe agrochemical handling, integrated pesticides management, and good environmental practices. No physical investments are directly financed under this PA.	Positive Impact. Centralization is expected to improve equity of advisory service delivery, directing more consistent support to smallholder farmers, including women farmers, who are historically underserved by the fragmented district-managed system. It creates the institutional basis for systematic integration of climate risk information and climate-smart practices into rural advisory services nationwide. The results framework includes sex disaggregated reporting on climate-smart agriculture training under this prior action. The phased transfer of approximately 40,000 extension workers was reported complete as of January 2026, with no livelihood loss or adverse transition reported, under the Law No. 20/2023 on the State Civil Apparatus and the formal transfer mechanism administered by the National Civil Service Agency (BKN) pursuant to Presidential Instruction No. 3/2025.
(completed) PA 1.2 To accelerate coordinated	Positive impact. Improved coordination and efficiency can	Positive Impact. Improved coordination and

Prior Action	Likely environmental impact	Likely social impact
irrigation development and maintenance in support of food self-sufficiency, the Government has established a coordinated framework for the development, upgrading, rehabilitation, and operation and maintenance of irrigation networks through Presidential Instruction No. 2/2025, dated Jan. 30, 2025.	support climate resilient irrigation and water use efficiency. Water sustainability risks may arise if modernization and improved reliability increase abstractions and exacerbate water stress where not aligned with basin water availability and water allocation protocols. Risk mitigation is through improved environmental screening and permitting (as relevant) and linking cumulative impact assessment to river basin water sustainability analysis. No physical investments are directly financed under this Prior Action.	water management is expected to deliver positive social benefits for rural farming households dependent on irrigated food crop production across approximately 7.5 million hectares. Improved irrigation reliability during critical cropping periods reduces livelihood risk from water stress, with particular benefits for women farmers concentrated in food crop production on smaller irrigated plots. PA 1.2 is a planning and coordination mandate. Social risks associated with specific rehabilitation works are downstream project-level impacts not attributable to this Prior Action.
(completed) PA 1.3 — The Government has strengthened climate adaptation mainstreaming in intergovernmental fiscal transfers through Ministry of Finance Regulation No. 7/2026, which embeds the Village Climate Risk Index (IRID) into the Village Fund (Dana Desa) allocation system to direct additional resources to climate-vulnerable villages.	Positive impact. Better targeting of village level climate resilient investments is expected to support adaptation in climate vulnerable villages. No likely adverse environmental impacts are expected from the fiscal policy reform itself, noting that environmental outcomes will depend on the nature of village investments and their screening/implementation under applicable government systems.	Positive Impact. The IRID-based allocation (through affirmative allocations for high climate-risk villages) is an equity-positive fiscal reform directing additional Dana Desa resources to villages most exposed to climate risks, which are disproportionately home to low-income rural households and communities with limited capacity to self-finance adaptation.

Prior Action	Likely environmental impact	Likely social impact
		No likely significant adverse social impact identified. The same regulation separately directs 58.03% of each village's allocation to the KDMP cooperative program (Article 15(3)), a distinct Government flagship initiative outside the Program's scope. Public views on the uniform share are assessed as relating to the flagship program rather than to Prior Action. The regulation carries its own equity safeguards, such as village deliberation over the regular allocation (Article 20), BLT as a priority use, redistribution of regular allocations toward disadvantaged villages. AIIB will monitor through regular Program arrangements and the PA 1.3 results indicator. SP2 design will pay further attention to the most vulnerable and lowest-capacity villages.
(completed) PA 1.4 To strengthen institutional support for social forestry implementation and Community-Based Social Forestry Enterprises (KUPS), the Ministry of Forestry has issued Regulation No. 7 of 2025 on the organization	Positive impact. Strengthened support to Social Forestry groups can promote sustainable forest management and climate resilient land use consistent with FOLU Net Sink 2030, particularly where assistance promotes low impact practices and stronger standards/monitoring.	Positive Impact. The reform strengthens the institutional capacity of Social Forestry Centers to deliver technical guidance, enterprise development support, and market facilitation for approximately 1.2 million households across over

Prior Action	Likely environmental impact	Likely social impact
and work procedures of Social Forestry Centers.	There is likely adverse risk of localized degradation and pressures on natural resources if activity expansion proceeds without adequate environmental consideration or where local governance/enforcement is deficient; mitigation is expected through strengthened sustainability standards, monitoring, and capacity building at subnational and community levels. The KUPS financing-readiness framework is to include sustainable forest-based value-chain criteria, environmental considerations, biodiversity protection, customary/community engagement, benefit-sharing, and RKPS/RKT planning and monitoring. No physical investments are directly financed under this Prior Action.	9,000 social forestry groups, improving access to livelihoods support for rural and customary communities whose economic opportunities depend on social forestry arrangements. The Centers' statutory mandate includes community facilitation, local knowledge inventory, and tenurial conflict mapping, reflecting a participatory approach. KfW, supports the national social forestry framework within which the Centers operate. An implementation consideration relates to the need for the relevant implementing agency to facilitate the inclusion of Masyarakat Adat in the planning process.
Reform Area 2: Ecosystem-Based Climate Resilience		
(completed) PA 2.1 — To strengthen coastal resilience, the Government has enacted Government Regulation No. 27/2025 on the Protection and Management of Mangrove Ecosystems, establishing a national framework for mangrove protection, management, rehabilitation, and	Positive impact. Strengthens mangrove protection, rehabilitation, and management, supporting biodiversity, coastal resilience, and blue carbon. Effectiveness depends on implementation and enforcement capacity; there is potential risk of displacement (“leakage”) of pressure to adjacent coastal	Positive Impact. PP 27/2025 provides legally binding recognition of traditional utilization rights for customary communities in both protective and cultivation function mangrove areas, including collection of non-timber products, silvofishery, and subsistence use. The

Prior Action	Likely environmental impact	Likely social impact
conversion control in forest and non-forest areas.	areas if restrictions are not paired with broader coastal management, consistent subnational enforcement and capacity building.	regulation establishes community participation mandates and financial incentive mechanisms, including compensation, partnership facilities, and levy reductions for communities conserving and restoring mangroves, benefiting coastal communities who depend on mangrove ecosystem services.
(completed) PA 2.2 — To strengthen climate-informed and environmentally sustainable development planning, the Government has enacted Government Regulation No. 26/2025 on Environmental Protection and Management Planning, which regulates environmental inventory, ecoregion determination, and the preparation and use of RPPLH as a basis for development and spatial planning.	Positive impact. Mainstreams environmental carrying capacity and climate considerations into subnational planning, reducing long term environmental risks. Effectiveness depends on plan quality and adoption. There is a risk of low-quality plans/limited effectiveness due to subnational capacity constraints and uneven implementation.	Positive Impact. PP 26/2025 mandates inclusion of tribal distribution, local knowledge, and customary community data as mandatory inputs into RPPLH preparation, providing a regulatory basis for indigenous and community data to inform long-term environmental planning. The regulation formally establishes community participation as a legal right through data submission, opinions, and complaint channels, creating a structural pathway for community interests to inform subnational development and investment planning.
(completed) PA 2.3 — To operationalize incentive-based environmental economic instruments for maintaining and improving the quality of environmental	Positive impact. Incentivizes ecosystem protection and restoration (e.g., watersheds, resilience). Outcomes depend on scheme design and monitoring; there is risk of	Positive Impact. The PJLH framework provides a formal financial mechanism through which communities and customary rights holders

Prior Action	Likely environmental impact	Likely social impact
services, the Government has established the regulatory framework for the development of Payment for Environmental Services systems, including performance-based cooperation agreements between environmental service providers and users, through Minister of Environment/Head of BPLH Regulation No. 2/2025, dated April 14, 2025.	focusing on more easily monetized services rather than priority environmental functions if not balanced, which is expected to be mitigated through technical guidelines and strengthened monitoring/MRV as the mechanism is operationalized. The PJLH technical guidance to include ecological prioritization, biodiversity and resilience considerations, transparent benefit-sharing, monitoring, reporting and verification.	who have historically managed and conserved ecosystems without remuneration can receive compensation for the ecosystem services their stewardship generates. This is directly beneficial for indigenous and rural communities managing forests, watersheds, and coastal ecosystems.
Reform Area 3: Resilient Local Service Delivery		
(completed) PA 3.1 To expand financing options for subnational infrastructure and public service investments, the Government has established a framework for subnational lending sourced from banks and non-bank financial institutions through Ministry of Finance Regulation No. 11/2026, dated March 4, 2026.	Neutral impact. Establishes a financing framework only. Environmental impacts, if any, would be associated with investments financed under the framework and are outside the scope of this CPBF ES analysis.	Positive Impact. PP 11/2026 explicitly recognizes public service provision as a legitimate lending purpose under Article 3, including for water, sanitation, solid waste, and social facilities where social returns exceed direct financial revenues improving access to infrastructure financing for subnational governments serving low-income communities.
(completed) PA 3.2 — To coordinate and streamline integrated upstream-to-downstream solid waste management reform, the Minister of National Development Planning/Head of Bappenas has issued Decree No.	Positive impact. Strengthens coordination and investment preparation for improved solid waste management, supporting reduced pollution (including marine litter) and methane. Environmental outcomes will depend on investment choices and the application of	Positive Impact. Improved solid waste management investment preparation is expected to directly benefit communities living near unmanaged waste sites, which are disproportionately low-

Prior Action	Likely environmental impact	Likely social impact
KEP.111/M.PPN/HK/12/2025 establishing the National Strategic Coordination Team for the Integrated Waste Management Reform Program, and SNI 3964:2025 on standardized methods for measuring municipal waste generation and composition has been adopted.	environmental assessment/permitting requirements during implementation.	income and peri-urban populations. Standardized waste measurement data under SNI 3964:2025 can improve investment targeting toward municipalities with the greatest service gaps. Inclusion of waste pickers and informal recyclers are also part of the national solid waste management roadmap being prepared by the Government. They have consulted the Indonesian waste pickers' association in preparing the roadmap, which provides upskilling and green jobs opportunities for the informal sector.
(completed) PA 3.3 — To set the national framework for safe, sustainable, and disaster- and climate-resilient drinking water supply, the Government has adopted the National Policy and Strategy for the Implementation of Drinking Water Supply Systems (Jakstranas SPAM) for 2026–2030 through Ministry of Public Works Regulation No. 6/2026, dated March 13, 2026.	Positive impact. Supports improved SPAM planning and service delivery, with potential co-benefits for raw water reliability, water quality protection, disaster and climate-risk management, and reduced pollution where drinking water planning is coordinated with sanitation and wastewater considerations. No material adverse environmental impacts are expected at the policy level; outcomes will depend on implementation and compliance with applicable environmental requirements.	Positive Impact. This prior action strengthens the governance framework for drinking water service delivery, including integrated planning, service standards, and enabling provisions for sustainable financing and climate resilience investment. Improved governance and planning capacity supports progress toward universal access to safe drinking water, with direct benefits for low-income and underserved communities currently dependent on informal or self-supply water sources.

Annex 5: Required Accompanying Document(s)

A. The Borrower's Development Policy Letter



1

Number : S-534/MK.09/2026

4 September 2026

DEVELOPMENT POLICY LETTER

Ms. Zou Jiayi
President
Asian Infrastructure Investment Bank
Beijing, People's Republic of China

Subject: Indonesia- Climate Adaptation and Green Resilience Program

Dear Ms. Zou,

On behalf of the Government of Indonesia (the government), we would like to express our appreciation for the continuous commitment and support of the Asian Infrastructure Investment Bank (AIIB) towards our overall reform efforts and the national development agenda.

This Development Policy Letter outlines the government's reform priorities in strengthening climate adaptive capacity across Indonesia's rural economy, ecosystems, and local service delivery systems. It should be read in conjunction with the Policy and Results Matrix for the Climate Adaptation and Green Resilience Program (the Program), in which we have identified key reform actions that support systemic improvements in climate-informed planning, governance, and investment across urban, rural, and ecosystem settings. We recognize that these reforms are critical for translating Indonesia's national climate commitments into concrete, locally implemented outcomes, for building long-term economic, ecological, and climate resilience, and for enabling the scale of public and private investment needed to achieve our Vision 2045 goals.

We would like to request AIIB's engagement in the programmatic series comprising two subprograms, with an indicative financing envelope of USD 1 billion for Program (USD 500 million for each subprogram) in Climate Policy-Based Financing (CPBF) to support the government's reform agenda and development financing needs in 2026-2029. The reforms under the Program are aligned with the government's Vision of Indonesia 2045, the National Long-Term Development Plan (RPJPN) 2025-2045, the National Medium-Term Development Plan (RPJMN) 2025-2029, Indonesia's Second Nationally Determined Contribution (SNDC), the National Adaptation Plan (NAP) 2026-2030, the Long-Term Strategy for Low Carbon and Climate Resilience 2050 (LTS-LCCR 2050), and the National Priority Work Programs 2026 (PKPN).

Subprogram 1 establishes the Program's framework and foundational policy and institutional reforms across three interconnected reform areas: climate-adaptive rural economy; ecosystem-based climate resilience, and resilient local service delivery. We present the prior actions achieved under Subprogram 1, which delivers foundational regulatory and institutional changes that collectively address key structural constraints to climate-adaptive development. We also present indicative policy actions for Subprogram 2, which will build on these foundations by

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deepening and scaling the reforms, strengthening implementation and enforcement, and aligning financing instruments and incentives with adaptation objectives. These indicative policy actions will be further finalized through consultations with the relevant ministries. We also look forward to AIIB's continued support in facilitating the timely and effective implementation of the indicative policy actions under Subprogram 2.

Macroeconomic context and outlook

Indonesia's economy has remained resilient, with gross domestic product (GDP) growth of approximately 5 percent in recent years, reaching 5.61 percent in the first quarter of 2026, supported by robust domestic demand. Inflation has moderated to within Bank Indonesia's target range, underpinned by a credible inflation-targeting framework. The banking sector remains sound, with strong capital and liquidity buffers. Our fiscal consolidation has proceeded steadily: the budget deficit stood at approximately 2.81 percent of GDP in 2025 and is projected at around 2.85 percent of GDP in 2026, well within the statutory 3 percent ceiling, while public debt remains moderate at around 40–41 percent of GDP and is assessed as sustainable by the International Monetary Fund (IMF). The current account deficit remains low and manageable, international reserves remain adequate, and the flexible exchange rate continues to absorb external shocks effectively.

The government is firmly committed to maintaining a sound and adequate macroeconomic policy framework throughout the implementation of the Program. We are pursuing structural reforms in parallel to strengthen revenue mobilization, deepen financial markets, improve the investment climate, and further embed climate considerations into public financial management. Based on recent IMF Article IV consultations and the government's fiscal trajectory, Indonesia's macroeconomic policy framework is adequate for this operation. As stated in Vision 2045, we aspire to achieve high-income country status by 2045, and the Program's climate adaptation reforms are integral to the productivity, resilience, and resource sustainability that this ambition requires.

Reform Area 1: Climate-Adaptive Rural economy

Under Reform Area 1, the Government has completed four prior actions to strengthen rural adaptive capacity. First, through Presidential Instruction No. 3/2025, the Government reformed the national agricultural extension system by transferring agricultural extension workers from provincial and local governments to central government management under the Ministry of Agriculture. This strengthens the institutional channel for delivering more consistent agricultural advisory services, including climate-smart agriculture advice. Second, through Presidential Instruction No. 2/2025, the Government established a coordinated framework for irrigation development, upgrading, rehabilitation, and operation and maintenance, which is essential for food security and water management under increasing climate variability.

Third, through Ministry of Finance Regulation No. 7/2026, the Government integrated the Village Climate Risk Index (IRID) into the Dana Desa allocation system so that additional resources can be directed to climate-vulnerable villages. Fourth, through Ministry of Forestry Regulation No. 7/2025, the Government strengthened the Social Forestry Center framework to improve facilitation for social forestry implementation and Community-Based Social Forestry Enterprises



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(KUPS). This reform is important for linking community-based forest management with sustainable livelihoods, conservation-linked enterprise development, and financing readiness. Under Subprogram 2, the Government intends to deepen these reforms by adopting national training modules on climate-smart agriculture and a rollout plan for agricultural extension workers; adopting a tertiary irrigation operation and maintenance framework; issuing operational guidance on the use of IRID to support village planning, budgeting, and reporting for eligible climate-resilience activities; and adopting a financing framework to improve KUPS readiness to access climate and blended finance. These actions are expected to support measurable results by 2029, including trained extension workers in priority high climate-risk areas, priority tertiary irrigation systems with validated climate-smart O&M plans, villages receiving IRID-based affirmation allocations that budget for eligible resilience activities, and gold and platinum class KUPS verified against financing-readiness criteria.

Reform Area 2: Ecosystem-Based Climate Resilience

Under Reform Area 2, the Government has completed three prior actions to strengthen ecosystem-based climate resilience. Through Government Regulation No. 27/2025, the Government established a national framework for the protection, management, rehabilitation, sustainable use, and conversion control of mangrove ecosystems. Through Government Regulation No. 26/2025, the Government regulated environmental inventory, ecoregion determination, and the preparation and use of Environmental Protection and Management Plans (RPPLH) as a basis for development planning. Through Minister of Environment/Head of BPLH Regulation No. 2/2025, the Government established the regulatory framework for Payment for Environmental Services (PJLH) systems, including cooperation agreements between environmental service providers and users.

Under Subprogram 2, the Government intends to adopt an operational framework to support the preparation and mainstreaming of provincial Mangrove Ecosystem Protection and Management Plans (RPPEM); adopt an operational module for RPPLH evaluation and the use of evaluation findings in sector planning and investment screening; and adopt technical guidelines to standardize environmental service financing arrangements into PJLH-compliant cooperation agreements. These reforms are expected to help provinces prepare RPPEM, complete RPPLH evaluation, and increase the number of PJLH cooperation agreements that finance or support ecosystem protection, restoration, or sustainable management activities. They will also help ensure that ecosystem functions, environmental carrying capacity, and climate risks are better reflected in planning, budgeting, and investment decisions.

Reform Area 3: Resilient local service delivery

Under Reform Area 3, the Government has completed three prior actions to strengthen the financing, data, coordination, and planning foundations for climate-resilient local services. Through Ministry of Finance Regulation No. 11/2026, the Government established a framework for subnational lending sourced from banks and non-bank financial institutions, expanding financing options for local infrastructure and public service investments. Through Bappenas Decree No. KEP.111/M.PPN/HK/12/2025 and SNI 3964:2025, the Government established the National Strategic Coordination Team for the Integrated Upstream-to-Downstream Waste Management Reform Program and adopted standardized methods for measuring municipal waste generation and composition. Through Ministry of Public Works Regulation No. 6/2026, the

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Government adopted the National Policy and Strategy for the Implementation of Drinking Water Supply Systems (Jakstranas SPAM) for 2026-2030, setting the national framework for safe, sustainable, and disaster- and climate-resilient drinking water supply.

Under Subprogram 2, the Government intends to issue technical guidance for identifying and developing climate-adaptation-relevant subnational investments; adopt an end-to-end solid waste management framework linking SNI-based waste measurement, service performance assessment using Waste Management Ladder-based IKPS, service improvement, investment planning, and financing options; and adopt a framework for local governments to incorporate disaster and climate-risk considerations into RISPAM and related SPAM planning documents. These reforms are expected to generate an initial pipeline of adaptation-relevant subnational investment concepts, support local governments in identifying solid waste service improvement and investment needs, and help cities and districts integrate climate and disaster risk into drinking water planning.

Implementation, monitoring, and accountability

The Ministry of National Development Planning/Bappenas will serve as the Executing Agency for the Program, with line ministries and agencies retaining technical leadership for reforms within their mandates. The Ministry of Agriculture, Ministry of Villages and Development of Disadvantaged Regions, and Ministry of Forestry will lead relevant actions under Reform Area 1. The Ministry of Environment will lead relevant actions under Reform Area 2. The Ministry of Finance, Ministry of Public Works, and Bappenas will lead relevant actions under Reform Area 3. The Government will operationalize coordination through a Bappenas-led Technical Working Group.

The Government is committed to monitoring the Program through the Policy and Results Matrix and to providing evidence of completion and implementation progress in accordance with the agreed verification arrangements. We will continue to use existing national planning, budgeting, reporting, environmental management, public financial management, and accountability systems. We will also continue to strengthen consultation, inclusion, and environmental and social risk management.

The Government appreciates AIIB's continued partnership and support for Indonesia's development and climate agenda. We look forward to AIIB's early consideration and approval of Subprogram 1 of the Indonesia Climate Adaptation and Green Resilience Program.

Minister of Finance of the Republic of Indonesia



Ditandatangani secara elektronik
Purbaya Yudhi Sadewa

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Cc.:

1. Minister of National Development Planning (Bappenas)
2. Director General of Budget Financing and Risk Management, Ministry of Finance
3. Deputy for Food Affairs, Natural Resources, and Environment, Ministry of National Development Planning (Bappenas)

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B. International Monetary Fund Assessment Letter or Equivalent (e.g., IMF Article IV Consultation)

Indonesia—Assessment Letter for the Asian Development Bank and the Asian Infrastructure Investment Bank July 10, 2026

This letter provides the IMF staff's updated assessment of Indonesia's macroeconomic conditions, prospects, and policies. It is based on the IMF July 2026 World Economic Outlook (WEO) forecasts and available information as of July 3, 2026. This assessment was requested by the ADB and the AIIB for their policy-based lending (PBL) and budget support operations respectively.

Recent Developments, Outlook, and Risks

1. Indonesia's economy remains broadly resilient, but faces rising external pressures stemming from the Middle East (ME) war. Growth stood at 5.1 percent in 2025. A strong 2026Q1 GDP outturn of 5.6 percent (y/y) was driven by front-loaded budget execution to support growth. However, recent data since the start of the ME war point to some adverse economic effects. Headline inflation rose to 3.3 percent (y/y) in June 2026 (from 3.1 percent in May), mainly driven by transport prices. Manufacturing PMI declined to its one-year low in June, consistent with subdued demand amid rising costs and external headwinds. The confluence of domestic policy uncertainties and the global energy shock has exerted capital outflow and exchange rate pressures (the rupiah depreciating around 7.6 percent YTD). Reserves have declined somewhat since end-2025; gross international reserves, at \$145 billion in end-May, remain above 100 percent of the IMF's reserve adequacy metric (111 percent of ARA). In the IMF's July 2026 WEO, growth is projected to remain broadly resilient at 5.0 and 5.1 percent in 2026 and 2027 respectively¹, as the war's impact on energy prices is expected to be cushioned by energy subsidies. Inflation is projected to remain within the target band this year. The current account deficit would widen moderately to -0.9 percent of GDP in 2026 (from -0.1 percent in 2025), with higher oil import costs partly offset by higher export revenues for commodities of which Indonesia is a net exporter.²

2. A more prolonged ME war poses significant downside risks. Disruptions to supply chains, global demand, and financial flows remain key downside risks. The high-frequency economic indicators point to some negative impacts from the surge in energy prices in recent months, though the effects have remained generally manageable so far. But if global oil prices are higher and/or higher prices last longer due to a broader and more persistent war in the Middle East (as highlighted in the July 2026 WEO), growth could slow further, and inflation could be higher, exerting more intensified policy tradeoffs, particularly if higher energy prices are combined with a risk-off shock. Meanwhile, durable peace agreements that restore global trade routes more quickly present upside risks. Beyond the ME war, risks stem, externally, from new trade policy shocks, prolonged global uncertainty and/or financial volatility; domestically, from large policy shifts without sufficient guardrails to protect policy space and credibility. Indonesia's longstanding strengths, accompanied

¹ The baseline in the July 2026 WEO assumes that the ceasefire in the Middle East remains in place indefinitely while diplomatic resolutions and supply workarounds eventually ease the disruptions stemming from the closure of the Strait of Hormuz by early 2027.

² In the 2025 Indonesia Article IV Consultation Staff Report, the external position in 2025 was assessed on a preliminary basis to be broadly aligned with the level implied by medium-term fundamentals and desirable policies.

by clear communication and coordination between fiscal and monetary policies that supports distinct policy mandates and preserves policy credibility, would help navigate these risks while limiting negative economic impacts.

Policy Framework and Settings

3. Carefully calibrating fiscal policy will be key to navigating the energy shock while safeguarding credibility. To this end, the authorities' announced commitment to staying within the fiscal deficit cap is welcome. They have announced spending reallocations and savings measures, including a reduction in the Nutritious Meal Program budget for 2026. Additional measures to reduce the energy bill, such as the rollout of electric vehicles, are also under consideration. Given the heightened uncertainty of the global environment, the authorities should consider a set of measures that allow a gradual and socially sustainable passthrough for fuel prices with well-targeted support, anchored by clear communication. Fiscal support should be temporary and targeted to preserve price signals and incentivize energy conservation. Fiscal policy would need to be calibrated further to comply with the deficit rule if the expected commodity revenue gain falls short or if the energy subsidy bill proves larger than anticipated. Under staff's baseline forecasts, public debt-to-GDP ratio is expected to remain at around 42 percent in the medium term, below the 60 percent debt ceiling. According to the 2025 Article IV Debt Sustainability Assessment, Indonesia is at a low overall risk of sovereign stress and debt is sustainable.

4. Limiting quasi-fiscal risks alongside reforms to enhance revenues and rationalize expenditure will be crucial. Danantara has the potential to support the authorities' development goals; yet it could also significantly expand quasi-fiscal activity. Putting in place robust governance and accountability frameworks around Danantara, in line with best practice, will help ensure it serves as an effective instrument for enhancing Indonesia's long-term growth while reducing risks. Avoiding an expansion of below-the-line and quasi-fiscal activities, while carefully ringfencing and monitoring these operations will help better gauge and manage Indonesia's overall fiscal footprint. Over the medium term, stronger revenue mobilization and spending rationalization—including on energy subsidies—would create space for priority spending.

5. Bank Indonesia (BI) is pivoting its policy stance toward maintaining external resilience and preempting inflation pressures. BI hiked the policy rate by 50 bps in May and a further 50 bps in June, to 5.75 percent to support the rupiah and mitigate inflation risks. Alongside, BI is increasing the outstanding stock of its short-term local currency instrument (SRBI) with yields set to attract capital inflows, and—while allowing the exchange to depreciate in response to the shock—undertaking FX interventions (FXI) in spot and derivative markets to smooth excess volatility. To support liquidity, BI is undertaking net government bond purchases in secondary markets, while its macroprudential policy stance supports credit growth. The recent pivot in the monetary policy stance towards tightening is appropriate and will need to remain data dependent. Under downside scenarios that entail higher inflationary risks, further tightening may be needed to avoid a de-anchoring of inflation expectations. Exchange rate flexibility should continue to act as the main shock absorber, particularly in the context of fundamental shocks. In line with the IMF's Integrated Policy Framework, and in the context of Indonesia's developing but still-shallow FX markets, FXI may be an

appropriate component of the policy mix in specific conditions. However, FXI use should be judicious, especially in a shock-prone and uncertain environment which puts a premium on preserving buffers, with complementary efforts to replenish reserves during periods of easing external pressures.

6. The authorities are pursuing efforts to improve FX inflows from trade. In June 2026, they revised the repatriation requirements for FX earnings from natural resources exports. They have also announced a new plan to centralize exports of selected commodities (coal, palm oil, ferroalloy) through an SOE under Danantara with the aim of boosting the retention of FX earnings onshore and fiscal revenues, including through reducing under-invoicing. The near-term focus will be on price monitoring. These initiatives to strengthen FX retention and inflows will need to be carefully considered and implemented to avoid disruptions to business and trade or adding to policy uncertainty which may weigh on investment.

7. The financial system appears broadly resilient amid external shocks. The banking system remains well capitalized and liquidity remains ample. Credit growth remains robust overall. The authorities are taking welcome steps to enhance stock market transparency and data quality, in light of concerns raised by MSCI. Accommodative MPPs in the near-term remain appropriate amid contained macro-financial risks and a negative credit gap; a shift towards a neutral stance as the credit gap closes would be appropriate. In the context of heightened external risks, policymakers will need to remain vigilant to preserve financial resilience. In line with the 2024 FSAP, continuing to enhance the regulatory and supervisory frameworks will sustain resilience.

8. Structural reforms and deregulation efforts will support Indonesia's path to high-income status. Promoting durable and dynamic private sector-led growth will be essential, including revitalizing the middle class, strengthening MSMEs, and attracting FDI. Calibrating Industrial Policy (IP) to target well-identified market failures (based on cost-benefit analyses), preserve competition, enforce strong governance safeguards, and minimize adverse outward spillovers will be critical. Reconciling IP design with ongoing trade integration efforts that significantly lower barriers to trade and investment would also be essential. Indonesia has made notable and welcome efforts toward trade integration despite recent trade uncertainties. Further impetus to deregulate, enhance trade openness (reducing trade barriers and deepening trade agreements), and improve the investment climate would bolster the country's growth and resilience to global shocks over the long term. Other key reform priorities include strengthening governance and fighting corruption, improving education and skills, and upgrading logistics and infrastructure.

IMF Relations

9. Indonesia is on the standard 12-month Article IV consultation cycle. The 2025 Article IV consultation was concluded by the IMF's Executive Board on January 14, 2026.

Table 1. Indonesia: Selected Economic Indicators (July 2026 WEO)

Population (2025): 285 million

Quota (current): SDR 4,648.4 million

GDP per capita (2025): US\$5,078

Poverty rate \$1.99 a day PPP (2024): 5.4%

Main export products: coal, base metal, palm oil, oil and gas, electrical apparatus, textile products.

Key export markets: China, United States, Japan, India, European Union, and Malaysia.

	2025 Est.	2026 Proj.	2027 Proj.
Output			
Real GDP growth (%)	5.1	5.0	5.1
Output gap (%)	-0.1	-0.1	0.0
Employment			
Unemployment (%)	4.9	4.9	4.8
Prices			
Inflation (% , period average)	1.9	3.4	2.7
Public finances			
Central government balance (% GDP)	-2.9	-2.9	-2.9
General government debt (% GDP)	41.0	41.8	41.6
Money and credit			
Bank Indonesia 7-day reverse repo rate (end of period, %)	4.8	...	...
Balance of payments			
Current account (% GDP)	-0.1	-0.9	-0.7
Exchange rate			
REER (percent change)	-4.9	...	...

Sources: Data provided by the Indonesian authorities; Haver Analytics; World Bank, World Development Indicators; and IMF staff estimates.

Annex 6: Complementary Operations Supporting Program Implementation and Results

1. This annex summarizes selected AIIB and development-partner operations that provide, or may provide, complementary financing, technical assistance, capacity building, implementation support, or project preparation relevant to implementation of the SP2 Indicative Prior Actions and achievement of the Program results. The mapping follows the Prior Actions and results set out in the Policy and Results Matrix. The annex is selective rather than exhaustive. Inclusion does not imply formal cofinancing, coordinated implementation, or a commitment by the relevant institution to support the Program.

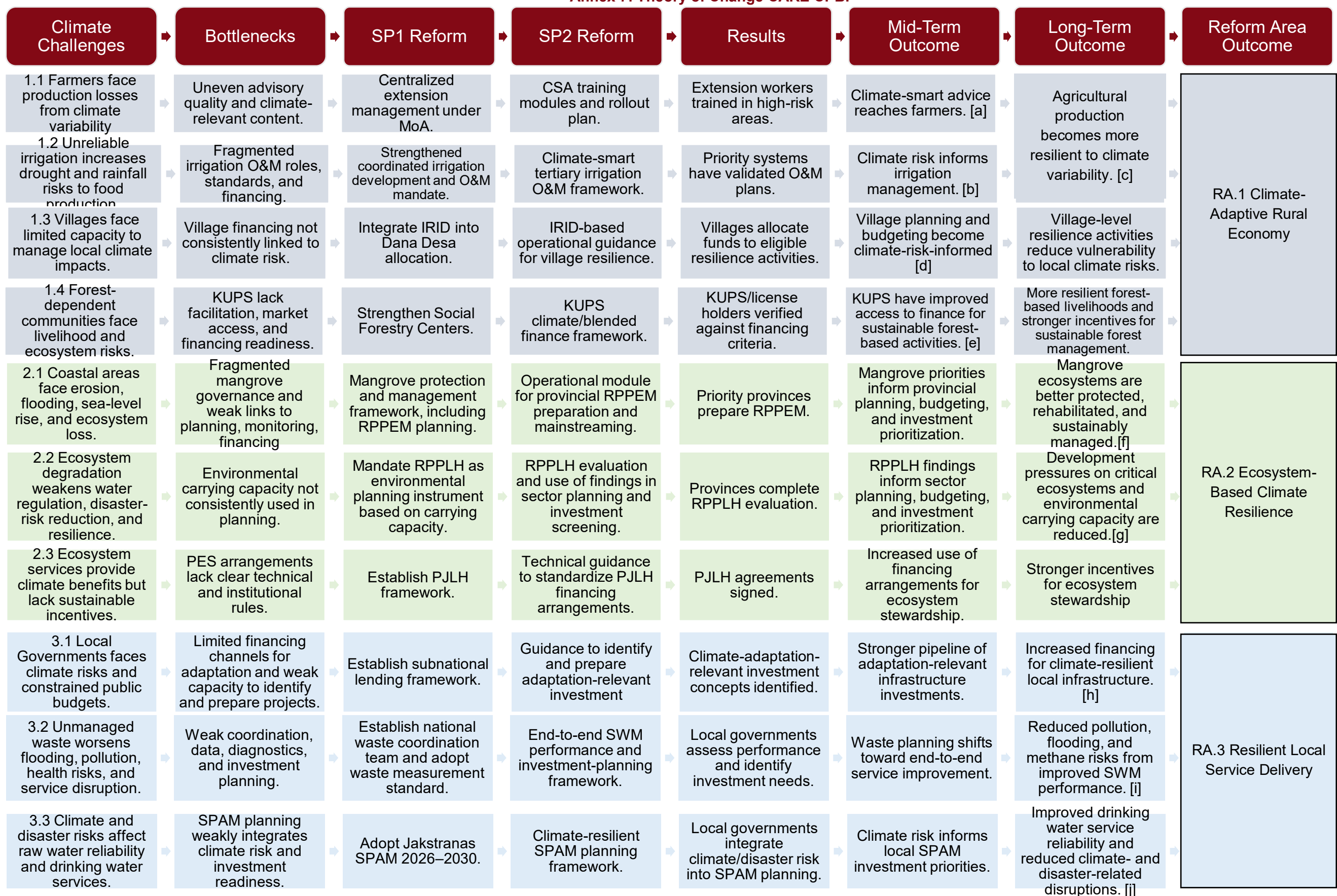
Selected Development Partner Operations Supporting Program Implementation and Results

Development partner and initiative	Linked Prior Action(s)	Nature of complementarity
World Bank: Agriculture Value Chain Development Project (ICARE)	PA 1.1 Agricultural extension	Provides investment financing and institutional capacity building for climate-smart agriculture, agricultural services, and resilient value chains. Its technical content, training approaches, and field experience may inform preparation and rollout of the national climate-smart agriculture training modules.
FAO, UNDP and IFAD: Leveraging Finance to Scale Up Climate-Resilient Food Systems	PA 1.1 Agricultural extension	Provides technical support, farmer training, agricultural insurance, and access to inclusive climate financing. Its field experience may inform practical training content and links between extension services, climate-smart practices, and agricultural risk financing.
GGGI: Sustainable Landscape Investment Partnership in Indonesia (KIBAR), Climate-Smart Livelihoods in Mangrove Landscapes (NASCLIM), and CLAP	PA 1.4 Social forestry enterprises; PAs 2.1–2.3 – Ecosystem planning and financing	The programs provide or may provide technical assistance, business development, livelihood support, natural-capital analysis, and investment-mobilization support related to sustainable landscapes, social forestry, mangroves, biodiversity, and environmental services. Potential alignment includes KUPS financing readiness, mangrove planning, RPPLH application, and PJLH arrangements
UNDP, with Green Climate Fund support: Strengthening the Climate Vulnerability Index Data Information System (SIDIK)	PA 1.3 – Climate-risk-informed village planning and budgeting	SIDIK maps climate vulnerability to the village level and provides data on potential impacts on communities, ecosystems, and local economies. UNDP-supported upgrades strengthened its indicators, geospatial analysis, annual tracking, and use by national and subnational institutions. SIDIK can complement PA 1.3 by identifying locally relevant adaptation priorities; it does not replace the IRID-based Village Fund allocation mechanism.
GIZ: Forest and Climate Protection	PA 1.4 Social forestry enterprises; PAs	Provides policy advice, institutional capacity building, community training, and implementation support for sustainable forest management. Its

Programme (FORCLIME)	2.1–2.3 Ecosystem governance and financing	experience may inform social-forestry facilitation, community-based ecosystem management, institutional strengthening, and implementation of forestry reforms.
World Bank: Mangroves for Coastal Resilience Project	PA 2.1 Mangrove protection and planning	Provides investment financing, technical assistance, institutional strengthening, mangrove conservation and restoration, and livelihood support. Its data, methodologies, and implementation experience may support preparation and application of RPPEM guidance and provincial mangrove plans.
KfW: Forest and Mangrove Programs in Indonesia	PA 1.4 Social forestry enterprises; PAs 2.1 and 2.3 Mangrove planning and ecosystem financing	Provides financing and implementation support for forest and mangrove protection, restoration, community participation, livelihood development, and conservation incentives. This experience may inform provincial mangrove planning, community-based management, and environmental-service mechanisms.
World Bank: Strengthening Intergovernmental Transfers and Subnational Finance for Service Delivery in Indonesia (SINERGIS)	PA 3.1 Subnational infrastructure financing	Provides results-based financing and technical assistance to strengthen intergovernmental transfers, subnational expenditure performance, data systems, and institutional capacity. It complements the fiscal and performance-management environment in which adaptation-relevant investments are prioritized and prepared.
AFD: Credit Facilities and Technical Assistance to PT SMI	PA 3.1 Subnational adaptation investment financing	Provides long-term financing for climate- and SDG-related infrastructure and technical assistance for institutional procedures and project appraisal. It offers relevant institutional experience and a potential financing channel for eligible adaptation-related subnational investments.
UNDRR: Technical and analytical support to the Ministry of Finance on climate-risk assessment and budget stress testing	PA 3.1 Subnational adaptation investment financing	The support can complement PA 3.1 by strengthening analysis of the fiscal consequences of climate and disaster risks and informing the screening, prioritization, and appraisal of adaptation-relevant subnational investments.
ADB: Reducing Marine Debris Program and Associated Technical Assistance	PA 3.2 Solid-waste management	Provides policy-based financing for solid-waste and marine-debris reforms, together with technical assistance for preparing and conducting due diligence on waste-management investments. It may complement implementation of the Program's solid-waste performance and investment-planning framework.
UNDP: Sustainable Infrastructure Programme in Asia (SIPA) and possible follow-on support	PA 3.2 Solid-waste management	SIPA has provided technical assistance relevant to the AIIB-supported Solid Waste Management for Sustainable Urban Development Project in coordination with Bappenas. This experience provides an analytical and institutional foundation

		for potential support to the solid-waste performance and investment-planning reforms under PA 3.2. Any follow-on support remains to be defined and agreed.
World Bank: Local Service Delivery Improvement Project	PA 3.2 Solid-waste management	Provides investment financing, performance-based support, and institutional capacity building for improved solid-waste services in participating local governments. It may provide an implementation platform for improved diagnostics, performance measurement, planning, and investment preparation.
ADB: Citywide Inclusive Sanitation Project	PA 3.3 Water supply and sanitation planning	Provides investment financing and institutional capacity building for climate-resilient and safely managed sanitation services. Its implementation experience may inform integrated planning, institutional arrangements, investment preparation, and service-delivery improvements.
Australia–Indonesia Climate and Sustainable Infrastructure Partnership (KINETIK), supported by the Australian Government	Relevant Reform Area 3 reforms, subject to confirmation of the specific work program	Provides technical assistance and project-preparation support for climate-resilient infrastructure, including water, sanitation and waste management, and supports the mobilization of public, private, and climate finance.

Annex 7: Theory of Change CARE CPBF



Critical Assumptions: [a] Trained extension workers have the deployment, budget, supervision, and outreach support needed to reach farmers. [b] Climate and hydrological risk information, O&M financing, and technical support are available to support irrigation management. [c] Farmers can apply CSA advice, supported by timely, localized, and actionable weather, climate, and early-warning information, as well as access to water, inputs, and incentives. [d] Adequate village facilitation is available. [e] KUPS receive adequate facilitation, and suitable financing channels are available. [f] Budget and financing are available to implement priority mangrove measures. [g] RPPLH-informed decisions are implemented and enforced. [h] Project-preparation facilitation or facility support is available to help local governments develop identified concepts toward financing. [i] Priority SWM improvements are financed, implemented, and operated effectively. [j] Risk-informed SPAM priorities are financed, implemented, operated, and coordinated with raw-water planning.

Annex 8: Illustrative Pathways from CPBF-Supported Reforms to Follow-on Financing

Selected sector	CPBF-supported policy and institutional changes	Illustrative results for potential results-based financing	Illustrative investments and inputs for investment financing
Climate-smart irrigation and agro-climate services	Clarifies institutional responsibilities for tertiary irrigation O&M and supports the adoption of climate-smart O&M standards, planning templates, and monitoring arrangements. It also supports national climate-smart agriculture modules and protocols linking BMKG climate information with agricultural extension services.	Measurable water savings; increased area receiving reliable irrigation services; priority tertiary irrigation systems operating under validated climate-smart O&M plans; and increased numbers of farmers receiving and using actionable agro-climate advisories.	Rehabilitation and modernization of tertiary irrigation systems; water-control and measurement equipment; hydrometeorological observation and forecasting systems; digital advisory platforms; and training for extension workers, water-user associations, and irrigation personnel.
Village-level climate resilience	Links climate-risk classifications with Village Fund allocation and supports operational guidance on eligible resilience activities, planning and appraisal requirements, and reporting arrangements.	Increased proportion of high-risk villages budgeting, implementing, and reporting eligible resilience measures; and verified completion and functionality of supported village-level investments.	Small-scale water management, drainage, slope stabilization, resilient access roads, community facilities, local early-warning systems, and other eligible village-resilience investments.
Mangrove and ecosystem-based resilience	Supports operational guidance for mangrove-protection and environmental-planning frameworks so that responsible institutions can identify priority ecosystems, incorporate environmental conditions into planning and investment decisions, and develop ecosystem-service financing arrangements.	Increased area under effective protection, restoration, or sustainable management; verified improvements in ecosystem condition; priority investments identified through RPPEM or RPPLH; and PJLH agreements linked to verified ecosystem-service outcomes.	Mangrove and watershed restoration; nature-based coastal protection; ecosystem-monitoring systems; source-water protection; community livelihood investments; and preparation of priority restoration investments.

Solid-waste management	Supports standardized methods for measuring waste generation and service performance and establishes a framework for local governments to diagnose service gaps, prepare service-improvement plans, identify financing options, and prioritize investments.	Increased waste-collection and treatment coverage; verified reductions in unmanaged waste; increased recovery or recycling rates; and participating local governments achieving agreed service-performance milestones.	Collection equipment and fleets; transfer, sorting, recycling, treatment, and sanitary-disposal facilities; service-management and reporting systems; and preparation of priority investments.
Climate-resilient drinking-water services	Supports the integration of climate and disaster risks into RISPAM and related SPAM planning documents so that local governments and service providers can identify vulnerabilities, prioritize resilience measures, and incorporate them into investment plans.	Increased population receiving reliable and climate-resilient drinking-water services; reduced service interruptions in climate-risk areas; and local governments or service providers achieving agreed service-reliability and resilience milestones.	Climate-resilient water sources, treatment and distribution infrastructure; source-water protection; flood- and drought-resilience measures; monitoring systems; project preparation; and institutional capacity building.